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PRESIDENT CLINTON'S FISCAL YEAR 1996 BUDGET

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

HEARINGS HELD IN WASHINGTON, DC, FEBRUARY 7, 9, AND 10, 1995

Serial No. 104-4



MAY 24 1995

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PRESIDENT CLINTON'S FISCAL YEAR 1996 BUDGET

TUESDAY, FEBRUARY 7, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Representatives present: Kasich, Hobson, Walker, Kolbe, Shays, Herger, Bunning, Smith of Texas, Allard, Miller, Lazio, Franks, Smith of Michigan, Inglis, Hoke, Nussle, Hoekstra, Largent, Myrick, Brownback, Sabo, Stenholm, Slaughter, Coyne, Costello, Mink, Orton, Pomeroy, Browder, Woolsey, Olver, Roybal-Allard, Meek, Rivers, and Doggett.

Chairman KASICH. Committee will come to order.

Well, this morning I want to welcome Dr. Rivlin here. The Doctor and I had a chance last night to kind of talk about this budget, maybe scream a little about this budget on MacNeil-Lehrer last night, and I want this morning to say that I am obviously disappointed to say that we have the document in front of us that we have.

When you take a look at this whole document and you see that in the area of entitlements you have about \$29 billion worth of savings and you make note of the fact that last year's bipartisan commission on entitlements, this is amazing, share of Federal spending assumed by entitlements will rise from 48.8 percent in 1995 to 54.9 percent in the year 2000. Mandatory spending, including net interest, will grow from 64 percent in 1995—think about this, folks—from 64 percent in 1995 to 71.2 percent in the year 2000. We are just out of control. I mean we are out of control.

And when you take a look at the budget beyond the \$29 billion that we have in entitlement savings, when you take a look at the discretionary savings that I hope one of my colleagues, maybe Jim Kolbe will get into, it is possible to argue, frankly, and I don't want to get into a bunch of budgetese, but the administration is claiming \$101 billion in discretionary cuts, all of which comes from an inflated baseline.

You could make an argument—I know Senator Domenici feels this way—you could make an argument there is about \$5 billion in total savings out of discretionary spending. And for those that like to study budgets and those that like to learn how we put things together, you can see the CBO cap is at 549 but OMB adjusted the cap—they essentially adjusted it twice for inflation in what we can

tell and they gets \$5 billion more in savings from discretionary than the CBO cap. And you add that cumulatively and it figures out to \$101 billion.

These savings may not exist at all. So you have \$29 billion in entitlement savings when you have entitlement spending going through the roof. You probably have somewhere around \$5 billion in discretionary spending. I mean this is really a pass. This is not good, ladies and gentlemen. This is not good.

Now, I have had a chance over the years to not study Dr. Rivlin as much as I would like to. I have her book. It is on my desk. It has been sitting there. I have scanned some of it and she had a big fight inside the White House to try to do more with this budget.

Doctor, you lost the fight, but I have to tell you, I know where your heart is, and I know you wanted to deal with these things and I respect you for it. You want to know something? I hope that you will be the only one in this city that will lose this fight this year, but you know what, I have a feeling there will be some others of us that will lose some fights along the way that will break our hearts like this fight, I believe, broke your heart. We will not hear that today, but I know how you feel because you could not come up here with a budget that shoots entitlements through the roof.

The reason why I think we do not make any changes here is because it is the lobbyists and it is the special interest groups that say not me, somebody else. We will get to it later; we will do it later. The country is in trouble, folks, and I really believe that Republicans and Democrats, and I think we are going to have to have Republicans and Democrats working together to get this job done because the minute we try to really deal with discretionary spending and eliminate departments or take on programs like Big Bird, we are going to have a tremendous outpouring of opposition to us trying to do the right thing.

And then when we get to the big battle, the battle over entitlements, you know what has happened with entitlements, people really feel entitled. A lot of people really feel entitled. But it is my sense in traveling around the country with this committee that people are willing to stand up to the plate. But you know what happens is the people that represent them, the lobbyists representing these groups, they are going to fight in this town to preserve exactly what we currently have, and the people who are going to be the losers are going to be the next generation. It will be the kids.

And our legacy in this Congress—you know our legacy, all of us who are here today, including Dr. Rivlin, we are going to have to live with the outcome for the future, and I will tell you something, we have to stop the politics. We have to stop the politics and we have to get down to the right policies.

I hope that as we go down the road—and Dr. Rivlin said last night that she wanted to work with us—as we head down the road, I am hoping, as disappointed as I am with this budget, I am hoping as we get down the road maybe we will be able to meet. Maybe we can figure out how to put the darned politics aside and do the right policy, take on the big issues, stare the special interest groups square in the eye and do the right thing.

If that day comes, we will have left—we will have left a great legacy for the next generation. I am just afraid we are going to fail. I worry about it.

You know, at the same time, I also, in talking to my colleagues, I sense deep inside of them they want to do it, too. And even if you could not win this battle inside the White House, maybe we can win this fight on Capitol Hill and we can save the kids, we can save the next generation and we can do the right thing. There will be so many people in this country that will appreciate it.

Mr. Sabo.

Mr. SABO. Mr. Chairman, before my opening comment, I am curious about our schedule for the committee. I read varying newspaper accounts and I know the Chair originally planned the revised 1995 budget resolution. I keep hearing rumors that still may be the case, or it may not be, and I am just curious.

Chairman KASICH. I think it is a very fair question.

Mr. SABO. I do not expect set dates on when we may be doing things, but sort of a general idea of where the committee is headed.

Chairman KASICH. Martin, as you know, and as you have predicted, we are going to have to work hard to get our act together here. We originally intended to have a revised budget resolution and that possibility still exists. What I anticipate is we are going to see a document that potentially will look more like a Penny-Kasich document than the revised budget resolution.

We have to pay for our \$200 billion in cuts. We will, in fact, pay for that. I was hoping we would do it a little sooner, and, frankly, we are working to get our act together. I don't want to leave people with the wrong impression. It is not like we cannot do it or we are having difficulty or we are clobbering one another, it is not that at all.

It is the process of figuring out what pieces we want to do and precisely the timetable, and we really wanted to get the President's budget up here because there may be things in there we want to take. We clearly have to do this before the first 100 days. I am still not totally sure whether it will be a revised budget resolution or a Penny-Kasich type bill, but I think we are moving more toward the Penny-Kasich type bill. How we package that together we are still working internally, but we will give you obviously plenty of time to look at what we are doing on that, and give you a chance to analyze it, I hope.

That is kind of where we are on that.

In terms of the hearing schedule here, Thursday, we are going to have some economists that are going to come in and talk and maybe, Laura Tyson, I think we have her scheduled for the afternoon. We wanted to have Secretary Rubin. We could not work that because he is doing the peso over in the Senate. And then on Friday, we have two former OMB directors who will be in to testify.

Mr. SABO. Which one is Dave Stockman?

Chairman KASICH. No, I do not think Stockman is coming, but I tell you what, I tell you what, if I could figure out how to pull it off, everybody in town would be here for that, wouldn't they?

Mr. ORTON. Let us invite him.

Chairman KASICH. Well, maybe you can do that.

Mr. SABO. He is yours.

Chairman KASICH. I am not going to—the guy tried his best. Anyway, and then we will try, Mr. Sabo, try to get more administration people up here. What I have suggested is I have asked my colleagues to give me a list of people they would like to see. If you folks have some suggestions, you need to give them to us.

CBO. I can tell you about CBO. I think we will have an announcement shortly. I would ideally, we are trying to work it. I told staff this morning I would like for the person that we want for CBO to come before the committee so everybody has a chance to talk and question her, and that is kind of the latest update.

I am sorry I cannot be as solid as I would like to, but things are changing and the name of the word is "flexibility." But I will tell you what, we are going to have to come in with a bottom line, the bottom line business or we are going to get the business and we all know that and I am confident that we will.

Mr. SABO. Thank you, Mr. Chairman.

And Dr. Rivlin, I thank you for coming before the committee today. When the President submitted his budget to Congress this week, he restated his commitments to invest in our Nation's future and to make the Federal Government smaller and more efficient. Two years ago the President worked with Congress to enact a credible budget plan that reduced the Federal budget deficit more than \$500 billion over the 5-year budget time, and the package worked, in contrast to what the doomsayers had to say in 1993.

It has brought the deficits down to the lowest levels since 1979. And in 1995 we will see a third consecutive year of falling deficits. The first time that has happened since Harry Truman was in the White House. That progress has laid the foundation for a growing, stronger economy.

Now Congress must again take hold of the budget process and work with the administration to enact further deficit reduction, at the same time not jeopardizing continued economic growth. Unfortunately, last year the Congress was unable to enact any health care reform. In the absence of health care reform, medical costs continue to rise.

In fact, the Medicare and Medicaid programs alone will account for 38 percent of the growth in Federal spending over the next 5 years. It is clear that if we are to achieve a balanced budget, we must address the rising costs of Federal health programs, but I also have to say that I totally agree with the President, that Medicare and Medicaid cuts should not be used to pay for tax cuts for the most affluent and most powerful in this country.

And, Mr. Chairman, there are folks who lobby this institution, and I know of none who will benefit more than the most wealthy and the most powerful in this society by the Republican tax cut contract. It is a contract that will cost this budget over \$200 billion in the first 5 years, an additional \$500 billion-plus in the second 5 years, and to have that paid for—and these are the folks that have the most money; it is geared to the most affluent in our society—these tax cuts, we are told, are going to be paid for by cuts in Medicare, Medicaid, or modifications in growth, by changes in basic nutrition programs for people, in basic services for people to pay for this tax cut, not to bring the deficit down. I think that is totally wrong. That is the issue we face.

Your dilemma, Mr. Chairman, is that you are searching and scraping and searching for the money to pay for this tax cut, which does not reduce the deficit one dime. It is structured so that it explodes in costs, explodes in costs in years 6 through 10, which further complicates the process of bringing the deficit down.

So I think we need to put the wealthy and the powerful aside for a while and decide how we deal with real fiscal problems in this country and how we reform health care, particularly those that are paid for substantially by the Federal Government so we can bring the deficit down. Because that is the core of the issue.

When you look at Federal expenditures, discretionary spending is flat, the retirement programs, and Social Security, grow roughly at the rate of recipient growth and inflation. Health care has and continues to explode in cost for the Federal Government. The solution to that problem should be to reduce the deficit, not to hand out tax cuts to the wealthy and powerful.

Dr. Rivlin, the President and you deserve credit for your efforts to reduce the deficit, streamline the Federal Government and improve our economy. We must build on those achievements and I look forward to working with you and with all the members of this committee to continue to achieve that goal.

Thank you.

Chairman KASICH. Dr. Rivlin, your testimony, please.

STATEMENT OF DR. ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Ms. RIVLIN. With your permission, Mr. Chairman, I would like to submit my testimony for the record and give a brief summary of it here.

I am happy to be here before the House Budget Committee to start the dialogue about the fiscal 1996 budget. I look forward to working with this committee as we go through the difficult process of putting together a budget. This committee, which has the hard job of putting together budgets, knows that it is a difficult task. That may be why your schedule is slipping some. The realities of doing this are indeed difficult.

The administration worked long and hard on this budget proposal. We made tough decisions. We also balanced difficult choices. We believe this is a good budget. I would like to talk briefly about the budget and leave the remainder of the time for your questions.

This budget continues the major themes that have animated the Clinton administration's economic strategy from the beginning. One of these themes is raising living standards for average Americans, both now and in the future.

That goal is one we all must work toward. The reason the Clinton administration put so much emphasis on deficit reduction in its first two budgets was that, at the time we came into office, the deficit was out of control. The deficit was rising, and it was the biggest impediment to the increase of future living standards. The deficit had to be brought under control. We did that. In the last 2 years we have brought the deficit down dramatically.

Let me refer to a chart with which you are all familiar. It shows what has happened to the deficit in the last couple of years. When the Clinton administration came into office, the deficit for fiscal

1992 was \$290 billion and headed up. It was increasing rapidly and was projected to exceed \$400 billion by the end of the decade.

The plan the President introduced, and courageous Members of Congress voted for, brought the deficit under control. We are proud of that. We have reduced the size of the deficit to under \$200 billion this year.

The other emphasis we had at the same time we were bringing the deficit down was on investing. We have been investing in people and their skills, along with technology and science, to give us a more productive economy with better jobs and wages. We also have been investing in infrastructure to increase productivity.

This budget continues the fight for higher living standards and higher wages.

We are proposing a tax cut for working families, to give immediate relief to families with children. These families are not at the high end of the living scale, but they are working hard and raising kids. They need immediate help to have a better life.

We are also emphasizing education and training. In today's complex world, people must have the training and education that will enable them to get good jobs. Thus, we are proposing an education and training deduction on the income tax to encourage people to invest in themselves.

We are proposing to broaden the Individual Retirement Account, not only to encourage saving for the future, but to allow people to use their savings for purposes other than retirement such as education, the purchase of a first home, or extraordinary medical expenses.

We are proposing a GI bill for American workers. This voucher, or skills scholarship, as we are calling it, will enable dislocated and low-income workers to find the training they need. We are paying for the GI bill by combining the plethora of training programs in the budget to not only create a pool of funds for the skill scholarships, but also give State and local governments more flexibility in providing the services that dislocated and low-income workers need.

We are emphasizing investment in the range of programs that are important to the future of young Americans. Head Start, WIC, Schools to Work, and Goals 2000 are programs the Congress has passed; we believe these programs are essential to improving skills and enhancing lifelong learning. Science and technology, biomedical science, and other investments in our future are also emphasized in this budget.

But this budget also continues our tradition of fiscal responsibility. Although the deficit is no longer out of control, as it was in 1992, it is still a problem. And while we have gone through the Federal budget, paying assiduous attention to what can be cut; we must still ask the question—what does the Federal Government no longer need to do?

This budget provides specific budget savings, comprising mostly spending cuts, of \$144 billion over 5 years. We are using less than half of that, \$63 billion, to pay for our middle class tax cut. The remainder will be used for deficit reduction.

Most of the spending cuts are in discretionary spending. We do not, however, believe in blindly slashing government. We strongly

believe that a leaner government can be more effective. That brings me to the second theme that has run through the Clinton administration's strategy from the beginning: creating a government that works better.

With the Vice President's National Performance Review [NPR] we have started to create a government that works better. The NPR has been very successful, and has put us on the track to reducing the Federal work force by 272,000 people. By the end of fiscal 1996, we will be two-thirds of the way toward achieving that goal, as we will have reduced the Federal work force by at least 173,000 people.

In December, we took another big step by focusing on aggressively restructuring five agencies—Transportation, Housing and Urban Development, Energy, the Office of Personnel Management, and the General Services Administration. We think these agencies can do their jobs better in a much more simplified way. This budget contains detailed proposals for restructuring them.

In addition, we have terminated 130 programs that represent things we think the government no longer needs to be doing. Most importantly, we have consolidated 271 programs into 27 performance partnerships—a new concept that is different from block grants.

With these performance partnerships, we are not saying put the money on the stump and run. Rather, we are saying that State and local governments need more flexibility to address their own problems. The Federal Government has too many programs, too many rules, too many conflicting requirements, and too much bureaucracy.

Performance partnerships will enable us to group those Federal programs together and give State and local government more flexibility. But there must also be a measure of accountability. We are calling these performance partnerships because we believe not only in partnership, but in performance as well. We believe in working with the State and local governments to define what we are trying to do with this money; how can we measure what we're trying to do; and how we can measure results and be accountable to the public.

The Vice President likes to talk about trust and accountability. While we trust State and local government to spend the money sensibly to reach the objectives of the performance partnerships, we must all be held accountable for the results of the activities.

Another theme which has animated the Clinton strategy from the beginning is a budget that enables America to be a leader in the world. We don't just want a leaner, more effective domestic government; we also want a leaner, more effective fighting force.

As everyone knows, we have been on the track to adjusting the size of the Armed Forces to the post-cold war world. We realize that our leaner military force must be effective. Thus we have put into the budget, announced in December, \$25 billion in additional funding for the military to enhance readiness and what Secretary Perry likes to call quality of life—things that allow us to maintain an effective military force. We also have sent up a supplemental appropriation request for fiscal 1995 to enhance the readiness of the military.

In conclusion, Mr. Chairman, we stand ready to work with this committee in a dialogue on the budget. We want to work with the committee not only on the things that are proposed in this budget, but on things that aren't. We did not include welfare reform in this budget. But everybody knows we are for welfare reform.

We had a welfare reform bill up last year and are engaged in active discussions with the Congress on reaching the objectives of welfare reform, which I think are common ones. We want a welfare system which emphasizes getting people to work and focuses on welfare as a transition, not as a way of life.

In the area of health care reform, we had a proposal last year that generated a great deal of dialogue. However, it did not come to fruition. We want very much, as the President emphasized in his State of the Union Address, to work with the Congress on health care reform, which is, as Mr. Sabo emphasized, key to further progress on the deficit.

Mr. Chairman, I think we all have an opportunity in working on this budget to serve the American people and their children and grandchildren as well. We need to fashion a budget that is fiscally responsible, that preserves and strengthens the activities people expect from their government, and that eliminates or changes things that the people no longer want government to do. It is a hard job. We have put our proposal on the table and we are eager to see yours. We are interested in working with you.

[The prepared statement of Dr. Alice Rivlin follows:]

PREPARED STATEMENT OF DR. ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, members of the Committee, thank you for inviting me to offer the Administration's views on the President's fiscal 1996 budget. For the third straight year, the President has proposed a detailed plan to create a smaller, more effective Government for average Americans—that is, to help create his "New Covenant" between the Government and the American people.

EXECUTIVE SUMMARY

The President proposes to build upon his strong record of achievement. With the help of his economic plan, which Congress passed in 1993, the President helped to jump-start a weak recovery. The result was lower interest rates, little inflation, and the creation of more than 5.6 million new jobs.

With a plan that called for a record \$505 billion in deficit reduction over 5 years, and has in fact produced over \$600 billion in deficit reduction, the President has reduced the deficit from \$290 billion in 1992 to \$203 billion in 1994. We expect the deficit to be under \$200 billion this year. By 1998, the deficit will fall to its lowest level as a percentage of GDP since 1979.

At the same time, the President has made great progress in reinventing Government through the National Performance Review. We have reduced the work force by 102,000 positions while streamlining departments and agencies, cutting redtape, and providing better service.

Now, we plan to go further. The President has proposed \$144 billion of budget savings—\$63 billion to finance the middle class tax cut that I will discuss in a moment and \$81 billion to reduce the deficit further over the next 5 years. As part of those savings, he proposes to terminate 130 programs and consolidate 271 others into 27 new "performance partnerships."

Not everyone has shared in the economic recovery. As a result, the President proposes a Middle Class Bill of Rights, which will cut taxes for middle-income Americans and give unemployed or dislocated workers grants to purchase the job training they need.

He also is continuing to reduce the Federal bureaucracy and will, by the end of this decade, cut it to its smallest size since John Kennedy was President. As part of Phase II of the National Performance Review, he has proposed to restructure the

Departments of Housing and Urban Development, Energy, and Transportation, the General Services Administration, and the Office of Personnel Management.

In the coming months, also as part of Phase II, the President will examine every other program and activity to determine which to terminate, which to restructure, and which to shift to the States, localities, or private sector.

MAJOR THEMES

This budget revolves around three major themes—themes that have dominated the President's economic strategy for the past 2 years.

1. Raising the standard of living for average families, now and in the future: The President is proposing a Middle Class Bill of Rights. For the short term, it will provide needed tax relief to help millions of average families raise their living standards now. And for the long term, it will give those families the tools they need to raise their living standards in the future.

The Middle Class Bill of Rights:

Provides a \$500 per child tax credit for middle-income families with children under 13;

Expands eligibility for Individual Retirement Accounts (IRA's) and allows families to make penalty-free withdrawals for a range of educational, housing, or medical needs;

Offers a tax deduction for the costs of college, university, or vocational education; and

Creates a G.I. Bill for America's Workers by consolidating 70 job training programs and using the money to offer "Skill grants" through which dislocated and low-income workers can choose and pay for the training they need to find new and better jobs.

The President proposes to build upon his investments in human and physical capital—investments that will help to raise national productivity and, in turn, living standards for the future. Overall, he proposes to increase investment spending by \$9.7 billion in fiscal 1996 over 1995.

The G.I. Bill for America's Workers is a new element of his continuing agenda for improving the education and skills of America's workers, enabling them to compete for high-wage jobs in the new economy. In the last 2 years, the Administration has enacted the Goals 2000 bill to encourage States and localities to reform their educational systems; revamped the student loan program to make post-secondary education affordable to more Americans, and pushed successfully for the School-to-Work program that enables young Americans to move more easily from high school to training or more education.

In this budget, the President proposes a 10-percent increase for the Special Supplemental Feeding Program for Women, Infants, and Children (WIC), to \$3.8 billion; an 11-percent increase for Head Start, to \$3.9 billion; and an 86-percent increase for Goals 2000, to \$750 million.

The President's budget also emphasizes investments in science and technology to improve future productivity and U.S. competitiveness in the new economy. It proposes a 13-percent increase for the Defense Department's core Technology Reinvestment Project (TRP), to \$500 million; a 4-percent increase for biomedical research at the National Institutes of Health, to \$11.8 billion; a 20-percent increase for the Commerce Department's National Institute of Standards and Technology, to a total of \$1 billion; and a 4-percent increase for the National Science Foundation, to \$3.4 billion. The President seeks to strengthen the Administration's coordinated efforts to promote science and technology through the National Science and Technology Council and to improve the payment system for federally sponsored research at colleges and universities.

The budget also continues the Administration's strong commitment to deficit reduction. When we arrived, the deficit was a clear threat to future living standards. It was projected to rise from \$290 billion in 1992 to more than \$300 billion immediately, and then to near \$400 billion a few years down the road. The deficit was absorbing a huge share of national saving that could otherwise be spent on the kinds of investments that increase productivity.

Working with Congress in 1993, we enacted a 5-year budget plan designed to reduce the deficit by a cumulative \$505 billion from 1994 to 1998. Because the economy has performed better than expectations, we now expect to generate \$616 billion in deficit reduction over that time. The deficit measured \$203 billion in 1994—a huge drop from the \$290 billion of 2 years earlier. Except for an anomaly in 1997, we expect it to remain below \$200 billion for the rest of this decade.

More importantly, we have reduced the deficit from 4.9 percent of Gross Domestic Product [GDP] when we arrived to a projected 2.7 percent this year. Clearly, we have brought the deficit under control.

But we are not satisfied. In this budget, we propose to reduce the deficit between 1996 and 2000 by another \$81 billion. More importantly, our budget would bring the deficit down to 2.1 percent of GDP by the end of this decade—its lowest level since 1979.

We are proposing \$144 billion in new budget savings—\$63 billion to pay for our middle class tax cut and \$81 billion for more deficit reduction.

How did we generate the \$144 billion in savings?

Most of them, \$101 billion, come in discretionary spending cuts. Of the \$101 billion, \$21 billion comes from Phase II of the Administration's effort to reinvent Government through the National Performance Review. This includes the restructurings of the Departments of Housing and Urban Development, Transportation, and Energy, the General Services Administration, and the Office of Personnel Management. The rest of the savings are outlined in the program-by-program detail in the budget for the years 1996–2000.

Also as part of Phase II, the Administration has begun an intensive effort to examine the other Federal departments and agencies to determine which functions and activities to continue, which to terminate, and which to shift to the States, localities, or the private sector. We anticipate that, through this effort, we will revise our 5-year, program-by-program plan and offer proposals to restructure agencies in the same way that we have for those cited above.

The budget contains \$29 billion of mandatory savings. Most it comes from extending the Medicare and Veterans reforms of the 1990 and 1993 budget reconciliation acts, accelerating our successful direct student loan program, expanding the principle of user payment for the electromagnetic spectrum, and other smaller savings.

The budget also includes tax compliance savings of about \$9 billion, including about \$0.4 billion from reinventing government.

Finally, the budget includes a small amount of savings that does not score for budgetary purposes, including net spending reduction from the Administration's non-emergency supplemental appropriation proposal for fiscal 1995, interest savings associated with the direct student loan program, and debt service savings from all of the other proposals. Partially offsetting these savings are bookkeeping costs due to personnel cuts; reducing the size of the Federal workforce means that the Federal Government and its employees make smaller contributions to the pension funds.

In sum, these proposals fully offset the tax cuts and leave enough additional savings to keep the deficit under control beyond the 5-year budget window. While the economy is growing, the deficit is not.

2. Projecting American Leadership: Our funding proposals for international affairs, \$21.2 billion, and national defense, \$258.3 billion, support American leadership around the world. These two elements are synergistic: we design and prepare our forces and programs to support our national interests and foreign policy goals. Together, they create the foundation for our leadership. I will turn first to international affairs, then to national defense.

However critical to promoting our vital national interests, funds for international affairs programs and institutions constitute only 1 percent of our total budget, requiring that we carefully focus on their most effective use in supporting our most important goals and objectives.

Our budget promotes and defends our vital interests in regions that have long been central to our national security: Europe, the Middle East, and Asia. Our budget includes \$788 million to support economic and democracy programs in the new independent states [NIS] of the former Soviet Union. In Central Europe, our budget supports the missions of supporting democracy, free markets, and peace by providing \$480 million in funding to help healthy, market democracies emerge. The budget also maintains our long-standing support for the peace process in the Middle East, requesting more than \$5.2 billion to assist countries participating in that process.

A strong and growing world economy that incorporates an increasing number of nations is essential to our own economic growth. Our budget provides increased support to strengthen our trade position in the global market and especially in Central Europe, Russia, and Ukraine through such agencies as the Export-Import Bank.

Our leadership is important to prevent and provide a humanitarian response to crises and conflicts that have so visibly divided many nations in recent years. Our budget supports this leadership effort by providing \$1.7 billion for refugee, humanitarian feeding, and disaster assistance programs.

The Nation has built, and this Administration continues to support, a powerful military capability. Our defense budget, which is significantly higher than that of any other nation, supports one of the world's largest military forces, with a superior

level of quality and talent. It continues our commitment to maintaining high levels of training and readiness of that force and to equipping it with a technology second to none.

In discretionary spending, the budget requests \$258.3 billion in budget authority and \$262.2 billion in outlays for the National Defense Function. The outlays represent 16 percent of all spending in the budget.

The Administration continues to place its highest priority on the readiness of U.S. defense forces—ensuring their ability to mobilize, deploy, and operate effectively in the face of varied challenges of the post-cold war era. The Defense Funding Initiative, providing \$25 billion in higher spending from 1996 to 2001, supports our commitment to high levels of readiness, as does the requested defense supplemental appropriation for 1995. For 1996, the budget proposes funding of \$91.9 billion for Operations and Maintenance, the principal readiness-related account.

This budget also contains several initiatives to improve the quality of military life: a 2.4 percent military pay raise and an increase in military community and family support, including more child care facilities, family counselors, and improved recreational facilities.

Superior technology is the hallmark of the U.S. Armed Forces. In particular, we expect investments in information technologies and sensors to give our forces major advantages in gathering, processing, and acting upon information from the battlefield. The budget proposes \$7.8 billion for science and technology programs.

The budget also enables us to maintain stewardship over our nuclear capability. The budget proposes \$11.2 billion in total Energy Department spending on defense activities. It includes \$6.6 billion of cleanup and disposal of wastes from prior nuclear weapons activities, \$0.7 billion for developing nuclear reactors for Naval vessels, and \$0.7 billion for nonproliferation, arms control, and other activities.

Intelligence remains a critical ingredient of our national security posture. To support it, we propose to keep the Intelligence budget at the 1995 level. To plan for the future, the President and Congress established a commission of distinguished Americans that will spend the next year reviewing the roles and capabilities of the Intelligence Community. Their conclusions will help to guide future decisions on goals and resources.

Wise investments with dual-use technologies support national defense. They allow defense systems to draw on leading-edge commercial developments in such areas as computers and communications, and they allow investments in defense programs to accelerate commercial progress in such areas as advanced materials and space systems. The Administration's dual-use investment strategy focuses heavily on electronics and sensors. The Technology Reinvestment Program is a key component of this strategy. It awards Federal funds competitively, on a cost-shared basis, to enable industry-led projects to create new dual-use technologies. Since the start of the TRP program in 1993, over 15,000 companies have submitted over 3,000 proposals to participate; the program has made over 250 awards. The budget requests \$500 million for the TRP program.

The Defense Department's main challenge with its facilities is to tailor them to the downsized force structure. DOD is working to ensure that base closure and realignment decisions will generate a more efficient use of the remaining defense infrastructure. The budget provides \$3.9 billion in 1996 to implement closure and realignment decisions. At the same time, DOD is committed to assisting the economic redevelopment of communities affected by base closures. In this effort, the budget increases funding for DOD's Office of Economic Adjustment [OEA] to \$59 million, \$20 million over 1995, to help Base Realignment and Closure Commission communities plan for economic redevelopment.

3. Making Government Work: The President is building on his initial success in making Government work and moving out in dramatic, new directions.

Through the National Performance Review [NPR], which the President created 2 years ago, the Administration has improved service to Government's "customers," cut redtape, empowered Federal employees, and eliminated programs that no longer serve a useful purpose. We have sought to ensure that Federal programs achieve real results—e.g., cleaner air—rather than merely spend taxpayer dollars.

We streamlined Federal agencies, cutting management layers and excessive controls. Already, we have reduced the work force by 102,000 full-time equivalent [FTE] positions. Continuing the President's effort, the budget proposes 1.976 million FTE. By the end of 1996, the President will have cut FTE by 173,300, reducing the Federal Government to its smallest size in 30 years. He also will be nearly two-thirds of the way toward the required reduction of 272,900 by 1999, as outlined in last year's Federal Workforce Restructuring Act.

In its first phase, the NPR, under the direction of Vice President Gore, mostly examined the "how" of Government—the human resource management, procurement

rules, and other processes by which the Government operates. In general, it did not focus on the more basic question of "what" the Federal Government should, and should not, do.

With this budget, the President has begun to tackle this very fundamental question. He is proposing a major restructuring of three Cabinet departments—Housing and Urban Development, Transportation, and Energy—and two major agencies—the General Services Administration and the Office of Personnel Management. We expect these restructurings to save \$23 billion over the next 5 years.

We also are proposing to consolidate 271 programs into 27 "performance partnerships." In exchange for giving States, localities, and other providers more flexibility in how they spend Federal funds, we are seeking more accountability for that spending by focusing on actual performance. Rather than merely calculate the inputs of a program—i.e., funding levels—we are focusing on outputs—what the programs actually accomplish.

The consolidated programs include 70 to create the G.I. Bill for America's Workers, mostly from the Departments of Education and Labor; 108 from the Public Health Service; 60 from the Department of Housing and Urban Development; 30 from the Department of Transportation; and 3 from the Department of Health and Human Services.

More importantly, these restructurings and consolidations are the first step in a Government-wide examination of departments and agencies, which the President has asked the Vice President to lead. This effort is designed to sort out responsibilities among the Federal, State, and local levels of government, and between Government and such private sector providers as businesses, non-profits, and community groups. Working with the NPR, OMB, the President's Management Council, and the White House policy councils, Federal agencies will examine every program, determine which to continue, which to eliminate, and which to shift to the States, localities, or private sector.

PROGRAM DETAIL

Restoring the American Community: American communities embody our sense of place, belonging, and togetherness—the very security on which we depend. But our communities face the pressures of great challenges that threaten the ties that bind us together. Violence and drug-related crime are tearing at our social fabric.

This budget would invest in our communities, by increasing funding for programs that help to strengthen our communities—AmeriCorps, empowerment zones, and the urban and rural economic development initiatives. It would continue to commitment undertaken in last year's crime bill, providing the funding necessary to continue making progress toward the goal of putting 100,000 police on the streets and providing increased funding for other crime control efforts.

AmeriCorps: The 1996 budget proposes to increase funding for the President's national service initiative to \$1.1 billion. This is a \$290 million increase from the prior year, and would permit the expansion of the program to 47,000 participants. This would keep the program on the President's goal of reaching 100,000 participants over 3 years.

Empowerment Zones and Enterprise Communities: On December 23, the Administration designated 9 Empowerment Zones and 95 Enterprise Communities, plus 2 additional urban enterprise zones. The Administration designated Atlanta, Baltimore, Chicago, Detroit, New York City, and Philadelphia/Camden as urban EZs, enabling each to receive \$100 million in flexible block grants. We designated Kentucky Highlands, Mississippi's Mid-Delta Region, and Texas' Rio Grande Valley as rural EZs. Los Angeles and Cleveland were designated as supplemental urban EZs. The budget contains the funding necessary to continue these commitments.

Urban and Rural Economic Development: We propose \$4.8 billion in 1996 to fund a new Community Opportunity Funds program to help local and State governments address the most critical needs of distressed communities. We also propose funding the Rural Development Initiative at a level of \$5.8 billion to continue to support grants, loans and loan guarantees—an increase of \$716 million over the prior year.

Controlling Violent Crime and Drug Abuse: Our proposed \$21.5 billion in discretionary spending in 1996 represents an increase of \$3.4 billion from 1995 to fight violent crime. The largest share of the increase would go to help State and local law enforcement agencies.

Community policing: The President is committed to putting 100,000 cops on the streets, and this budget contains \$1.9 billion in funding—an increase of 45 percent from 1995. This additional funding will make significant progress toward meeting the goal, bringing the total number of new officers funded to over 40,000 by the end of 1996.

Crime Control: Overall, the level of funding for the Administration's major violent crime control initiatives increases from \$2.4 billion in 1995 to \$4.3 billion in this budget—an increase of \$1.9 billion.

Drug Control: Drug control spending will increase by \$1.3 billion, from \$13.3 billion in 1995 to \$14.6 billion. The budget targets additional funding to treatment, prevention and education, and criminal justice.

Reforming the Nation's Immigration System: This budget reflects the Administration's continued commitment to controlling our Nation's borders and sharing the national burden of costs associated with illegal immigration.

Border Security Initiative: The budget includes \$656 million in new funding to support the border security initiative. These funding increases will strengthen border control and management activities of the Immigration and Naturalization Service and the Customs Bureau, and strengthen enforcement through the INS and the Department of Labor to apprehend and deport illegal immigrants. The budget proposes to finance this initiative, in part, through a modest border services user fee.

Helping with the Costs of Illegal Immigration: The budget also contains an additional \$370 million to assist States with particularly heavy burdens associated with illegal immigration. This increase is divided among three programs: State Criminal Alien Assistance Program; Medicaid discretionary grants to States; and the Immigrant Education Program.

Ensuring a Clean Environment: The Administration has developed several new approaches to advance the President's commitment that a healthy economy and a healthy environment go hand in hand. The budget targets spending to ensure that we make—the Government a partner working with local citizens, not an overseer.

Ecosystem Management: Funding levels reflect the high priority that the Administration places in maintaining ecologically diverse and health environments along with economically viable communities—\$390 million to continue the Northwest Forest Plan; \$99 million for the South Florida Ecosystem Restoration Initiative; and \$70 million in joint Federal-State mandatory spending related to the Restoration of Prince William Sound.

Climate Change Action Plan: The budget proposes \$336 million, an increase of \$104 million—45 percent—to fulfill the President's commitment to reduce greenhouse gas emissions to 1990 levels. This funding is designed to promote a public-private partnership rather than relying on command and control mandates.

Superfund: In each of the past 3 years, the Superfund program has cleaned up more sites than in its entire first decade. The budget proposes \$1.8 billion for Superfund, a \$332 million increase over 1995.

Investing in Science and Technology: Investing in science and technology is the key to assuring our Nation's economic well-being for generations to come. During the Cold War, most Federal spending on research and development [R&D] was defense-related. This research not only produced the most advanced military technology in the world, but the most technologically advanced economy in the world. Today we face a no less serious challenge that requires us to improve our competitiveness through a balanced mix of civilian and defense, public and private R&D.

NASA: The budget proposes \$159 million to begin research to produce a reusable space vehicle. This continues our Nation's leadership in space exploration and, at the same time, expands the opportunities for a commercial space launch market.

ARPA/TRP: The Technology Reinvestment Project implements the Defense Department's dual use technology strategy—a critical investment in transferring technology to commercial applications. The budget proposes \$500 million for TRP in 1996, a 13-percent increase from 1995.

NIST: The Commerce Department's National Institute of Standards and Technology has two core programs—the Advanced Technology Program [ATP] and Manufacturing Extension Partnerships [MEP]. The budget proposes \$491 million in 1996 for ATP, \$60 million more than 1995, and \$147 million for MEP, a \$56 million increase from 1995.

NIH: Proposed funding for biomedical research is \$11.8 billion, a \$468 million increase from 1995. This 4-percent increase includes targeted increases, such as those for HIV/AIDS-related research, breast cancer research, minority health initiatives, prevention research, environmental cancer research, and gene therapy.

Continuing the Commitment to Health Security: The President remains committed to reforms that will guarantee insurance coverage to every American and contain costs for individuals, businesses, and Government.

The President believes Congress can and should address the unfairness in the insurance market; make coverage affordable for and available to children; help workers who lose their jobs keep their health insurance; level the playing field for the self-employed by giving them the kind of tax treatment other businesses enjoy; and help the families provide long-term care for a sick parent or a disabled child. We

are committed to working with Congress to achieve these objectives and put America on the road to health security.

At the same time, we are proposing major increases for high-priority programs: Ryan White Act—HIV/AIDS Funding: The budget proposes \$723 million for the Ryan White program, which provides HIV/AIDS treatment services. Since this Administration took office, funding for the Ryan White program has increased by 82 percent. Our proposal for 1996 will more than double Ryan White funding since 1993.

Immunizations: We propose \$844 million for immunizations in 1996 to support the purchase of more vaccine to distribute through public health clinics and continued improvements in infrastructure to enable the Childhood Immunization Program to meet its goal of immunizing 90 percent of the Nation's children by the year 2000.

Special Supplemental Feeding Program for Women, Infants, and Children: The budget proposes \$3.8 billion for WIC, which will raise the annual average WIC participation levels to 7.4 million individuals, up from 5.9 million in 1993.

LONG-RUN BUDGET OUTLOOK

This budget preserves and builds upon the deficit reductions that the Administration accomplished in its first 2 years. We expect the deficit to drop again in 1995, this time to \$193 billion. After that, it will fluctuate in a narrow range—rising to \$197 billion in 1996 and to \$213 billion in 1997 (due to several anomalies in the budget numbers), then falling to \$194 in 2000.

More importantly, the deficit continues to decline in relation to GDP. It drops from 2.7 percent of GDP in 1996 to 2.1 percent in 2000. By this measure, the deficit reaches its lowest level since 1979.

Current law requires that the President submit budget estimates through 2000. By enacting the policy proposals in the budget, however, we can preserve the improvement in the deficit for at least the next 10 years. Looking beyond the year 2000, we anticipate rough stability in the dollar amount of the deficit through 2005. As a share of GDP, however, the deficit likely will continue its gradual decline, falling below 2 percent early in the next decade.

The major upward pressure on the deficit continues to come from health care. Although the reforms enacted in the President's economic program and administrative efforts to control costs have helped, the projected growth of Medicare and Medicaid spending remains very high. We project that Medicare will grow at an average annual rate of 9.1 percent over the next 5 years, and that Medicaid will grow at 9.3 percent.

This rapid growth comes in part from the corresponding rapid growth in the elderly population. Medicare benefits go primarily to the elderly, and almost 70 percent of Medicaid spending benefits the indigent elderly, blind, and disabled. Thus, the growth rates of these programs are not surprising. However, at those rates, Medicare and Medicaid spending will double every 8 years, and will rise from 3.4 percent of GDP in the year just ended to 4.2 percent by 2000 and 4.9 percent by 2005. The growth in all Federal health programs, of which Medicare and Medicaid are by far the largest, accounts for almost 40 percent of the total increase in Federal outlays between now and the year 2000.

We expect the number of people participating in Medicare and Medicaid to increase, bringing insurance protection to some of our most vulnerable citizens. The Medicaid population will grow at a projected average annual rate of 3.8 percent between now and 2000.

But this expansion in covered populations explains a relatively small part of the increased Federal spending for Medicare and Medicaid—and could be accommodated without undue pressure on the deficit. More important, from a fiscal standpoint, is that Medicare and Medicaid expenditures per beneficiary keep rising faster than inflation—indeed, faster than inflation plus the general increase in real per capita GDP. These increases in health care costs cannot be solved in isolation from reform of the broader health care system.

What would the deficit be if health care costs did not rise disproportionately? If Medicare and Medicaid expenditures rose to accommodate increases in the beneficiary population, but the per capita expenditures were limited to the general rate of inflation and increase in per capita output, the deficit would fall to zero by 2005.

CONCLUSION

This budget builds on the President's success to date in strengthening the economy, investing in the future, projecting American leadership around the world, and making Government work better.

It will reduce the deficit, increase investments in important domestic and military programs, cut taxes for middle-income Americans, and begin a serious, cross-Government examination to sort out Federal, State, and local responsibilities.

We look forward to working with you, Mr. Chairman, and this committee on these proposals.

Chairman KASICH. Thank you, Dr. Rivlin.

I would just say that no one in this room should have any doubts about the fact that the Republicans are going to be different this year. We are going to take these groups on. We have a number of people on this committee that want to do it, are committed to it, and I suppose we could spend all day arguing about this budget that is in front of us and I wish there was something in here about welfare reform. I wish there was something in here about health care reform. There is nothing in any of those areas. There is nothing in here at all. But I have to give some other people a chance to have their say today and, Mr. Kolbe, the gentleman from Arizona.

Mr. KOLBE. Thank you, Mr. Chairman.

Ms. Rivlin, we have a phalanx in between here, but we know we are there—

Ms. RIVLIN. Yes, I can see you.

Mr. KOLBE [continuing]. Thank you very much, Dr. Rivlin. The Republicans have entitled this budget "running in place," and I think for obvious reasons because it really does run in place, it does not make any effective attempt to get at the budget deficit.

Ms. Rivlin, I want to quote something from then-Governor Clinton's book when he was candidate. He said our plan—talking about what they were going to do the strategy for change—our plan will cut the deficit in half within 4 years and assure it continues to fall each year after that.

Was that an accurate statement? Today, could you say that is an accurate statement?

Ms. RIVLIN. It depends where you start from.

Mr. KOLBE. Well, will the deficit be cut in half during the course of 4 years?

Ms. RIVLIN. It has not yet been cut in half if you start from 1992, when the deficit was \$290 billion. We have cut the deficit by roughly \$100 billion and it will continue to decrease in relation to the economy.

In 1992, the deficit as a percentage of the gross domestic product was 4.9 percent. It is now down to 2.7 percent. By 1998 it will be down to 2.4 percent, which is about half of the figure we started with.

Mr. KOLBE. But you do not show it falling each year thereafter. And to use the 1992 budget, which was adopted in 1991, long before there was an election, would be inaccurate. So falling from even the 1993 deficit, you have not reached the one-half.

Ms. RIVLIN. You cannot expect the President, when he was running in 1992, to have predicted what the 1993 budget deficit would be.

Mr. KOLBE. The total amount added to the debt by the two Presidents, based on your estimation for two budgets done and two estimates here, actually using the 1993 through 1996, you would add \$847 billion to the deficit, the Bush administration added \$933 billion. So it is less. And as a percentage, it is certainly less, but it

is not getting us to a balanced budget. And I think what is disturbing is that the years thereafter the deficit actually begins to climb again.

Let me, if I might, turn to a different area. I want to put up another chart which I think illustrates what we are talking about when we say "running in place." This is the President's budget path, as to where you would be in terms of deficits. Here is where we move on the CBO balanced budget path toward a balanced budget. And we do not have anything in here that moves us in that direction.

Looking at your terminations—and we are going to, unlike some past years, what I have heard from some in the then majority party say that President Reagan's or President Bush's budgets were dead on arrival, we do not believe that is the case here. We will take a look at everything that is in the President's proposal and there are some very good ideas, terminations and consolidations and we are going to look at those and try to do those, but we think we have to go a lot further than that.

Your terminations, actually amount to a termination in budget outlay change in the first year of \$1.9 billion while your investments, so-called investments—which I think is a euphemism for budget increases—in the first year have a \$9.6 budget authority increase; is that not correct?

Ms. RIVLIN. The terminations are in small programs. They do not add up to very much. It is an illustration of the fact that there are a large number of small programs. However, most of our savings do not come from terminations. They come from reductions, consolidations, and restructurings and those are very large indeed.

Mr. KOLBE. Just reclaiming, because I will run out of time here. A final thought here. You said what I thought was a very revealing comment, you said everyone knows we are for welfare reform. But there is nothing in here. There is no suggestion of how welfare reform or any other entitlement reform would help us solve the problem. All of us know, everyone in this room, everyone in the country, I think, understands very well that that is the problem. When we have mandatory spending that now assumes over two-thirds of total Federal spending, we are not going to solve it and when we see what has happened with discretionary domestic spending and defense spending, how little it has gone up, we will not solve it in those areas. We have to do something more than cutting out waste and the misuse of funds, but we are not going to do it until we get to entitlement spending.

And the concern I think that we have on this Budget Committee is that the budget is totally lacking, is sorely lacking in doing anything about entitlement reform and that is the disappointment we have. We are not going to solve the problem. You may want to respond to that. My time is up.

Ms. WOOLSEY. Would the gentleman yield?

Mr. KOLBE. Let me see if Dr. Rivlin wanted to respond to that. I don't know if she does.

Ms. RIVLIN. Yes, I want to respond to that. I do not think it would have been useful to restate our welfare reform proposal in the budget since we are in the middle of an active dialogue not only with the Congress, but with States and localities as well. We had

a very lively meeting at Blair House a week ago Saturday in which we talked about welfare reform with Governors, mayors, and Members of Congress.

There is no doubt that we are for welfare reform. We have had a bill on the subject before the last Congress. But welfare reform is not the solution to the growth of entitlements. If we are going to control the entitlements, we must, as the President has said frequently, focus on reforming the Nation's health care system.

Mr. KOLBE. Thank you, Mr. Chairman.

Chairman KASICH. Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

I listen with interest, at the same time I know that the first priority of this new Congress, as relates to the budget, is to make some significant amount of modifications in the budget to pass a tax cut geared for the most powerful and rich in this society, not to reduce the deficit.

I am curious about one of the charts you had up. What has happened with Federal employment? Over the last couple of years I kept hearing regular accusations that the administration had bloated the Federal bureaucracy.

Ms. RIVLIN. Federal employment has been on a downward track. Over the last 2 years we have reduced Federal employment by about 100,000 people, and will have cut at least 272,000 people from the Federal work force by the end of the decade. The restructuring proposals we are now working on, beyond those that are in the budget, will probably reduce the Federal work force more.

Mr. SABO. Where will that leave Federal employment historically in relationship to number of people?

Ms. RIVLIN. The reductions will leave Federal employment at the level of where it was early in the Kennedy administration. Federal employment has not been a growth industry. It is remarkable when you think about it. The Federal Government is doing a lot more things than it did 30 years ago, and yet Federal employment, by the end of this decade, will be at a point below where it was in the Kennedy administration.

Mr. SABO. Two years ago I saw an analysis—I do not think it was done by CBO but somebody outside of the government—which was measuring the degree, the percentage, the part of the Federal budget that went for the direct purchase of goods and services by the Federal Government as a percentage of GDP. As I recall, that chart showed that at the lowest level since 1948. Do you do any computations like that?

Ms. RIVLIN. Yes we do. the figure you are referring to, which comes from the Commerce Department, shows that the Federal Government's direct purchases of goods and services as a percentage of GDP—when measured by the National Income and Product Accounts—are at their lowest level since 1948. In 1994, the latest year we have data for, it was 6.5 percent of GDP.

Mr. SABO. If you have that somewhere calculated, I would like to see it again.

Ms. RIVLIN. We can certainly supply it.

Mr. SABO. It was informative because it was a strong indication that the role of the Federal Government, as a direct purchaser of goods and services, and its direct impact on the economy in that

fashion, was declining substantially, and that, substantially, what we did was transfer funds to State or local governments or to individuals.

Ms. RIVLIN. That is true.

Mr. SABO. I wish you well, and I look forward to working with you. Clearly, we need to make reforms in health care to bring the deficit down, but, again, I must say I think those that suggest that we should do those reforms in health care to pay for a tax cut for the rich and powerful are dead wrong.

Chairman KASICH. Mr. Shays.

Mr. SHAYS. Thank you, Ms. Rivlin. I wanted to just touch very briefly on the concept of where we are headed and why we are avoiding dealing with what I call the heavy lifting. I view this as a timid budget, I view it as no heavy lifting.

I think the administration has abrogated its responsibility to lead the Congress, and I think that we are very willing to take that challenge, but it would have been, I think, an awesome opportunity for you to have come in with spending cuts to the budget, because that is what we are talking about, and you would have been free for the most part from any criticism on this side of the aisle because you would have been in partnership with what we and the American people want us to do.

I have two charts. They are not blown up, but are on your desk and they are very simple. One is a pie chart and in the top right-hand corner points out the discretionary spending out of Appropriations Committee is 36 percent; entitlements are 49 percent; and the interest on the national debt is 15 percent. Basically, two-thirds of the budget is on automatic pilot. The administration ignores two-thirds of the budget.

This bar chart shows the increases that are taking place in government. We know Medicaid is going up over 10 percent, almost 11, Medicare has gone up 10.2 percent annually. We know other entitlements have gone up at 7.4 percent interest, on the national debt up 5.7 percent. These top four of five bars that go out the furthest, the administration has totally ignored. And in the bottom, the lowest increase is defense, which has gone up less than a percent annually, international which is going up almost 2 and domestic up 2.2 percent.

How do we expect to get our financial house in order if we totally ignore two-thirds of the budget?

And then the last question, and I want to hear your response, from your own budget document, our national debt is—in actual it is \$4.6 trillion, and in your own budget document it is \$6.7 trillion. We are seeing it go up over \$2 trillion in your own budget as you presented it to Congress. How can we justify that \$2 trillion increase?

Ms. RIVLIN. On the first point, nobody would argue with the pie chart. It is in our budget. Entitlement spending is a very large fraction of the budget. It is, however, preposterous to say that the Clinton administration has ignored entitlement spending. The President's most important priority last year was working with the Congress on health care reform.

Mr. SHAYS. It is not in this budget. It is ignored in this budget.

Ms. RIVLIN. We did not return to the subject of health care reform in this budget because, as a tactical matter, it seemed more advisable to work with the Congress on a next step.

Mr. SHAYS. In this budget, where do you have entitlement reductions to increase? I need to just emphasize we are still saying Medicare and Medicaid can go up but not at 10 percent. Where in your budget do you slow the growth of Medicare and Medicaid?

Ms. RIVLIN. We do not have Medicare or Medicaid cuts in this budget.

Mr. SHAYS. Well, then, you do——

Ms. RIVLIN. Can I finish the sentence?

Mr. SHAYS. Yes, ma'am.

Ms. RIVLIN. The President does not believe that Medicare cuts should be used to pay for a tax cut. We did not include Medicare cuts in this budget because we would be strongly opposed to using them to pay for tax cuts. But that does not mean Medicare should not be addressed as part of overall health care reform. It should.

Mr. SHAYS. You did not have any Medicare—you did not slow the growth in Medicare in your budget. You did not slow the growth of Medicare, Medicaid. Did you slow the growth of any other entitlement in your budget?

Ms. RIVLIN. There are some mandatory cuts, but it is sort of a definitional question of what is a mandatory cut. The preponderance of our savings come from discretionary cuts.

Mr. SHAYS. Your answer to me as to why you chose not to have any entitlement cuts, particularly in Medicare and Medicaid, to the increase, is that you did not want to fund any tax reduction. You and I could have actually an agreement on that. The question I propose to you is why did you not propose reducing the increase in Medicare and Medicaid to help bring the deficit down?

Ms. RIVLIN. Because we think that reforming Medicare and Medicaid has to be part of a wider health care reform discussion. We want to talk about health care reform as a package. The President is eager to do that. We need to take the next steps on health care reform, both on ensuring wider coverage and on controlling the costs in the public and private sectors.

Mr. SHAYS. And he has presented that plan to us.

Ms. RIVLIN. Not yet. The President wants to work with the Congress on fashioning a plan.

Chairman KASICH. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Let the record show I, too, am disappointed that the President's budget did not do more, but I understand why he did not do more. As one also who has been beaten up considerably over the last 2 years for doing something about the deficit that did not find favor with all of the people, I understand why. And, Mr. Chairman, I wanted to say in your opening remarks to cheer up, this is not the end, this is the beginning, and then—he is standing right there. This is the beginning and this is one member of this committee that looks forward to hearing what you have to propose as to how you will, in fact, deal with the deficit in doing more, and giving much more help in coming up to that solution than what we have been used to on this side.

You know, 71 percent of us on this committee voted for a balanced budget amendment. That means 71 percent of us, all of my Republican colleagues and six of my Democratic colleagues voted to balance the budget by the year 2002, and, therefore, to maintain credibility, I believe, we have to put that kind of a plan in place. And I am dedicated to working with you to do that.

I would be critical today of the President's proposal of a \$52 billion tax cut. I will be four times more critical if you come forward with a \$200 billion tax cut, because I believe those among us who are concerned about growth, job production in this country, those who say that there are three things we need to do, one is to improve education; two is to increase trade; and, three is to reduce our deficit. This committee's responsibility is to work on reducing the deficit.

And this is one member, Mr. Chairman, when we talk about why we do not have welfare and health care, I understand. My goodness, we beat the thunder out of the President on his health care plan last year, bipartisanly, because we did not like it.

Now, it is up to us to come forward with a constructive alternative. And I will say to you everything is on the table as far as I am concerned: entitlements, Social Security must be on the table eventually. Not for purposes of spending the trust fund on other programs, but for purposes of building the trust fund for future generations. And I am going to convey that message to my Democratic colleagues in the Senate, hoping to get them off of the opposition of the balanced budget amendment, as strongly as I can.

But it seems to me that right now we ought to be rolling up our sleeves and getting ready to go to work, which I know you are doing, Mr. Chairman, and I hope nothing that I am saying is taken critically on anyone except all 42 of us on this committee. If we are going to be complaining about what the President has proposed, we are going to have to come up with constructive alternatives and that is going to be very, very difficult and all of us know that.

I just say my one comment, and I want to repeat that, I personally, when I say everything is on the table, I guess I almost have to correct myself in saying I do not believe that we can afford tax cuts at this time, whether it is the President's budget or whether it is what I hear is going to be coming from your side. Maybe you can show me how we can, in fact, pay for those and get the budget balanced by the year 2002, and when you do, if you do, you are going to find a lot of support from this member as to how to do it.

But in the meantime, I would encourage you, and Ms. Rivlin, since you are here to testify, I wish you had not come up with a tax cut in this proposal, because I think I would have liked to have seen the deficit coming down a little bit more.

Chairman KASICH. Would the gentleman yield?

Mr. STENHOLM. Be happy to yield.

Chairman KASICH. The gentleman should understand that even with the \$200 billion tax cut, in order to get to a balanced budget over the next 7 years, the Federal Government would still have a \$2 trillion increase in spending over what we had in the previous 7 years. And what we would have to do is to fight off the special interest groups in order to cut a total of \$1 trillion in anticipated spending.

We are going to go up \$2 trillion, and the problem, Charlie, is that people in this Congress, they cannot figure out how to live with \$2 trillion. What will defeat us will not be policy, what will defeat us will be politics. We are not going to be defeated, we are not going to be defeated but imagine that, down in Texas you tell them we only have \$2 trillion more to spend.

So I say to the gentleman, it will be tough, obviously, but not from a policy point of view, from a political point of view.

Mr. Hobson, the gentleman from Ohio.

Mr. HOBSON. Thank you, Mr. Chairman.

Doctor, you have a tough job, I think, trying to defend something you have little control over.

I want to go to something less than the big picture, but it affects the big picture. It is these little things that tend to bother me that kind of grow, and we plant seeds.

I want to mention the Vaccine for Children program as an example of politics being more expensive than smart policy. This program does less with more. Prior to the administration's vaccine for children program, vaccines were already available and free to lower income children through Medicaid and other public health programs. These programs had a 90-percent vaccination rate. To get the additional 10 percent, which I agreed with, your administration spent \$500 million more to create a program that might actually restrict access to vaccines.

In my State alone, of Ohio, and the chairman's State, access to vaccines for underinsured children was limited to federally qualified health centers, which only exist frankly in 22 of Ohio's 88 counties. Access to vaccines could be cut back in the other 66 counties; 8 of these counties happen to be in my district.

My question to you is are you planning to rethink this program and whether or not it is counterproductive to your original thoughts of getting vaccines to more children?

Ms. RIVLIN. The problem we were faced with, as you know, is that despite many efforts in the past, we actually had large numbers of children who were not getting vaccinations. Not all of those children were poor. Many of them were victims of the private system that was not functioning to get those inoculations done.

We mounted a serious program to ensure that all children get the requisite inoculations, not just when they get to school, which was happening anyway, but in the preschool years. We will be continuously evaluating this program but we think the statistics show that we have made considerable progress.

Mr. HOBSON. I would disagree with you on that and hope you would look at it, because I can tell you in 66 counties in the State of Ohio, you can have a real problem. That does not come from me, that comes from the directors of departments of health and the health service within those areas.

Let me go on to another question. Last week in the hearing room at this time I was talking to Robert Reischauer about Medicare and Medicaid spending. Your budget predicts Medicare spending in the year 2000 will be 72 percent higher than it was in 1994, and Medicare spending over the next 5 years will total \$1.2 trillion. That is trillion not billion.

Secretary Reischauer agreed with me that unless we enact serious reform, the Medicare hospital trust fund will go bankrupt. I do not see anything in your proposal. Your budget contains no policies to ensure the long-term solvency of the trust fund. Would it be your recommendation that payroll taxes be increased to keep the fund in balance; and, if so, how much would they have to be increased in order to do that?

What is your proposal on this?

Ms. RIVLIN. The budget does not have a proposal for ensuring the long-term solvency of the Medicare trust fund. This budget also does not contain any Medicare cuts. We recognize that health care spending, especially Medicare spending, is rising very rapidly. The projected growth rates for Medicare and Medicaid costs are not rising quite as rapidly as they were, but that is only modest good news. They are still rising very rapidly.

Without action by the administration and Congress, the Medicare trust fund is scheduled to run out of money in 2001, according to last April's report of the trustees of the HI trust fund. We must address that problem on a bipartisan basis. But the administration believes it should be addressed in the context of overall health care reform.

Mr. HOBSON. So you are giving us no proposal for the solvency problem?

Ms. RIVLIN. We are not giving you a proposal in this budget. We want to work with you on formulating one.

Mr. HOBSON. Well, I wish you would, one, give us a proposal and, two, work with us.

Ms. RIVLIN. We will.

Mr. HOBSON. Thank you, Mr. Chairman.

Chairman KASICH. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Director Rivlin, I am up here. We have heard an awful lot of criticism of the administration for not cutting the deficit even further than this budget proposes. I wonder if you could just illustrate for us what kind of cuts and spending reductions would have to take place if we were to implement the tax cuts or accept the tax cuts that are a part of the Contract With America.

Ms. RIVLIN. If you were to accept what we understand to be the tax cuts in the Contract With America, and get to balance by 2002, you would have to enact roughly \$1.3 trillion in cuts. If you were to exempt defense, Social Security and Medicare, for example, you would have to cut everything else by at least one-third.

Mr. COYNE. Well, thank you. We have also heard an awful lot of criticism of the administration for not getting the deficit below the \$190 billion level, and of course you stated in your testimony here today that really the better standard for measuring deficit reduction is as a percentage of the gross domestic product as opposed to just a given figure.

Why is that a better way of measuring deficit reduction than just a dollar figure?

Ms. RIVLIN. It is a better barometer for measuring deficit reduction because the size of the economy makes a difference. If someone were to say who has a bigger deficit, the United States or Belgium,

I think everyone would immediately say that is a silly question. It depends on the size of the economy.

The burden of the deficit, or the debt, has to be related to what we produce. We had a high debt burden in relation to the economy at the end of World War II. The debt was actually larger than the gross domestic product. But we grew the economy rapidly for the next 30 years. While the debt did not decrease in dollar terms, it became less important because it shrank from 100 percent of the GDP down to less than half. The debt as a percentage of GDP did not start rising again until the 1980's.

A deficit is out of control if it is growing faster than the economy is growing. And if the debt is growing faster than the economy is growing, that is not sustainable. When the Clinton administration came into office, both the deficit and the debt were growing faster than the economy. Today, that is no longer the case. The deficit is under control and the debt is not as big a burden because it is not growing as fast as the economy.

But that is not enough. We would like to see the debt grow even less. But clearly the situation is not as serious as it was when we came into office.

Mr. COYNE. Thank you, very much.

Chairman KASICH. Gentleman yields back his time.

Mr. COYNE. Yes.

Chairman KASICH. Gentleman from Texas, Mr. Smith.

Mr. SMITH OF TEXAS. Thank you, Mr. Chairman.

Director Rivlin, as a Presidential candidate, Mr. Clinton promised he would balance the budget. After he was elected he said he would cut the budget deficit in half. Now we see at best he will cut it by only a third. There just seems to me to be a continuing conflict between the administration's words and their actions.

What I would like to do is read to you an excerpt from an article from the Washington Post 3 days ago which is headlined "New Budget to Continue Deficits." The paragraph reads as follows:

In formulating his budget, Clinton and his White House team turned aside an argument by Rivlin who urged in meetings and memos that to maintain his credibility Clinton was obliged to produce a budget showing a deficit shrinking steadily to the year 2000, but Rivlin waged the battle virtually alone.

Now while I am glad you attempted to wage the battle, my question is why did you feel that the President's credibility was going to suffer if he did not propose continuing reductions in the deficit to the year 2000?

Ms. RIVLIN. I am not going to comment on who said what to whom in internal meetings. I believe that the Clinton administration's record on deficit reduction is one that we can be very proud of. It is not the administration's only goal, however.

We believe that average Americans have not shared in the robust recovery the Clinton economic plan has produced. We are worried about average Americans and that is why this budget focuses on investing in education and training, and offers tax cuts that will not only give relief to working families, but will also help them pay for the training they need to get better jobs in the future.

Mr. SMITH OF TEXAS. Director Rivlin, my point is I would like to see the President keep his promises and I would like to see you win your battles and I hope you have more company the next time, be-

cause I agree with what the article said regardless of whether or not you want to speculate on it, that the President has hurt his credibility by not keeping his promises and not continuing to propose reduction in the deficit.

Ms. RIVLIN. One of the things that—

Mr. SMITH OF TEXAS. Let me go to my next question and that is, what is going to be the impact on the economy of these continuing \$200 billion deficits? And, specifically, what is going to be the impact on the economy as far as interest rates go, and as far as the amount in interest payments that we pay on the now increasingly large debts?

Ms. RIVLIN. Interest payments are a substantial fraction, about 16 percent of the budget. We all wish that were lower.

Mr. SMITH OF TEXAS. But my question is what is the impact of the \$200 billion deficit for the foreseeable future, and then going up, going to have on the interest on the debt and on the interest rates themselves, which, as you and I know, affects every single American? Because as the interest rates go up, it makes it harder to start a business, it makes it harder to get loans for college, it makes it harder to purchase a home and so forth. What is the impact of a \$200 billion deficit going to have on the interest rates and on the interest on the debt?

Ms. RIVLIN. Interest rates respond to a variety of factors. But when the demand for funds is rising, whether the demand comes from the government borrowing or private sector borrowing, there tends to be upward pressure on interest rates.

Mr. SMITH OF TEXAS. Dr. Rivlin, is the impact of these \$200 billion deficits not going to increase the interest rates; and isn't it going to be to increase the amount we pay in interest on the debt? That is a straightforward question. I hope you can give a straightforward answer.

Ms. RIVLIN. Yes, other things being equal, interest rates are higher if the government is borrowing more. We are all concerned about the burden of the debt service, which is high.

Mr. SMITH OF TEXAS. Again, my point is that interest rates are going to go up. I have time for one more brief question. I hope you can answer it quickly, as well. In the budget and in your testimony you talk about a border crossing fee that is going to help pay for the border security initiative. If Congress does not pass a border crossing fee and I think it is too controversial to pass, is the administration going to find other ways to pay for their border security initiative?

Ms. RIVLIN. Well, that is one of the things we will have to work out with the Congress. We think border security is very important. Facilitating the legal crossing of the border is also important. The border crossing fee is, in large part, a response to the fact that we now have more traffic across the border. Drivers of trucks and other vehicles are experiencing long delays. We want to modernize the crossing points. This user fee is a way of paying for it.

Mr. SMITH OF TEXAS. Thank you.

Mr. HOBSON [presiding]. Time of the gentleman has expired.

Gentleman from Utah, Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman.

Dr. Rivlin, I am over here on your far right, perhaps politically as well as literally, but welcome.

It is a pleasure to have you here. I, along with many of my colleagues in both parties, have in fact voted for and been pushing for a balanced budget by the year 2002, and do not believe that the status quo is acceptable. We cannot continue with \$200 billion deficits as far into the future as we can see.

I also associate myself with the comments of Mr. Stenholm. There are many of us here who voted against the President's tax increase a couple of years ago, saying that what we have to do is cut spending first. I think many of us also are opposed to tax decreases, saying we still do not get it, we have to cut spending first.

I would encourage the President to continue looking at that. I understand the pressure to offer tax decreases. But if we are really going to deal with that line up there and get beyond \$200 billion per year deficits, we have to cut spending. Where do you do it?

John Dillinger was once asked, why do you rob banks? He said because that is where the money is. If you are going to cut spending, you have to go where the money is spent. Clearly, what you are doing and have been doing is working in the discretionary area, extending the caps, extending the freeze on discretionary spending. I favor that. I favor making the cuts through elimination and consolidation of many of the programs. But as we all know, that is not enough.

The real increase in this deficit, as we all know, is coming from entitlement spending. Mr. Kolbe was absolutely correct in pointing out that the most rapid growth in this budget is in Medicaid and Medicare. If we could keep the growth in Medicaid and Medicare spending to the growth in the population, plus inflation, we could get very near to, if not actually balancing, the budget by the year 2002. That has to be our goal.

As I understand it, there are really two basic approaches we could take in dealing with lowering the cost of health care. One approach would be simply to lower spending caps, to set limits and say you cannot spend more than this amount in this, this, this, and this year, and artificially try to ratchet it down by trying to set limits.

The other approach would be through systemic reform, which could include comprehensive health care reform, as the President has indicated. It could also include more targeted reform, as many of us have suggested—with trying to deal with means testing of part B, trying to deal with changing the way Medicare and Medicaid is provided, and so on.

I certainly understand why the President is backing off now and saying this is the budget you get if we do not change health care, I understand him saying to the Congress, "I came up with a proposal, you did not like it, now you tell us what to do." But has OMB taken a look at those two different approaches? And can you tell us the effectiveness of either of those approaches and the collateral impact on other parts of the budget by those two approaches; either just ratcheting-down spending through caps or through systemic reform?

Ms. RIVLIN. Well, ratcheting-down spending through caps is not really an option. At some point you have to decide how to meet the

cap and what specific changes you are going to make to get under the cap. A cap sounds easy, but it is not. The cap implies that at some point something is legislated that will get the programs under the caps.

We have looked at caps—and we have also looked at what real reforms would be and are ready to work with the Congress on it.

But your point gives me a chance to refer to my favorite chart in the budget, on page 42, which shows that on the path we are on, the budget will not be in balance even by 2005. On our current path, the deficit will be under 2 percent of GDP by 2005. But if we could keep health care spending from growing faster than the economy as a whole is growing, faster than the nominal GDP, we would have balance before 2003.

Mr. ORTON. Thank you, Mr. Chairman.

Chairman KASICH. Thank you, Mr. Orton.

Mr. Walker.

Mr. WALKER. We have heard a lot this morning about the fact that the President's package of last year was his deficit reduction package, and that we do not need to go any further than that. If I compare last year's budget with this year's budget, somehow you have lost \$75 billion out of that package in 1 year. I look at the years 1995, 1996, 1997, 1998, and 1999, and go back to last year's budget, and when I add up the figures I find out that somewhere the \$75 billion that you projected last year of deficit savings is gone.

And that would mean that 15 percent of the entire budget package of last year has been lost somewhere. Can you tell me where we lost it?

Ms. RIVLIN. Yes, that is very easy. Interest rates went up. Because of what has happened to interest rates in the past year, the interest rate projection is higher in this year's budget than last year's budget.

Mr. WALKER. So the President's \$500 billion reduction package of last year no longer exists. It is now a \$425 billion deficit reduction.

Ms. RIVLIN. Not at all. We have actually done better than the \$505 billion we thought we would get in deficit reduction, even with the recent increase in interest rates. We are now estimating that the reductions from the original package over the 5-year period would be \$616 billion in deficit reduction from the baseline, as opposed to \$505 billion. Before the interest rate increase, we would have estimated roughly \$700 billion in deficit reduction; that is where your \$75 billion has been lost.

Mr. WALKER. But, wait. When you get into the out years, what you have done is you have all of a sudden come up with numbers in the out years that show, in fact, the deficit starts going down again, when, in fact, all the numbers that are very real show the deficit going up enormously in 1996, 1997, it goes up by \$23 billion and \$33 billion compared to what you had predicted last year.

So it seems to me that the only way you are coming up with that \$616 is by using out year numbers that no one can confirm.

Ms. RIVLIN. No, not at all. The deficit has already fallen. The 5 years in question have already started. We have had actual deficit cuts over the last several years.

Mr. WALKER. And in 1995 you—in last year's budget, you predicted in 1995 you would have \$176 billion in deficit. Now you are saying that will be \$192.

Ms. RIVLIN. I am telling you why.

Mr. WALKER. In 1996, you said it would be \$173 billion, now you are saying it will be \$213 billion.

Ms. RIVLIN. OK.

Mr. WALKER. That does not sound like it is going down. It sounds like it is going up to me.

Ms. RIVLIN. You wanted to know the reason for the change in projections between the 2 years. The answer is that spending has not changed. There have been ups and downs, but, on balance, it has been a wash. Although revenues are slightly higher than what we predicted, interest rates are also higher. That accounts for the difference.

Mr. WALKER. In 1996, according to your budget numbers, compared to last year, you are up in outlays \$28 billion compared to what you said last year, which accounts for most of the increase in the deficit numbers.

Ms. RIVLIN. That includes the interest outlays.

Mr. WALKER. Well, interest rates are, in fact, a part of all this and a part of your economic program.

Ms. RIVLIN. I am not sure what we are arguing about. It is certainly true the deficit estimate has gone up. I am giving you an explanation of why it happened.

Mr. WALKER. And so, I come back to my point, that, in fact, the \$500 billion package has become less than that according to your numbers.

Ms. RIVLIN. No, it has not. The deficit reduction package has become more than that, and it would have been worth even more if we didn't have the increase in interest rates.

Mr. WALKER. I believe this is a perfect example that tax increases do not work.

Chairman KASICH. Mr. Pomeroy.

Mr. Browder.

Mr. BROWDER. Mr. Chairman, I am sorry.

Dr. Rivlin, first let me thank you for your voice for deficit reduction in the administration, and I am not going to beat up on the President's budget a lot, other than to say that I think the President's budget is really the 1996 Presidential Reelection Campaign Budget and is in many ways similar to the 1994 Contract With America. I think it deemphasizes deficit reduction in deference to entitlements and the middle class tax cut.

You know, the middle class tax cut is something that is very popular. The President has endorsed it, the majority party in Congress has endorsed it, but we visited a town meeting—held a hearing in Ohio and in Arizona—and I asked the question of the audience, would you rather have the middle class tax cut or apply that to deficit reduction. It was overwhelming. They favored the deficit reduction.

Now, I understand the chairman asked that same—Mr. Chairman, I understand you asked that same question, the Browder question, in Columbia, SC, this weekend.

Chairman KASICH. I believe you are correct, sir.

Mr. BROWDER. And got the same result. I am saying this not just to repeat what you have heard from a couple members on our committee, but to emphasize that there is a message from this Congress that is different from the traditional Democratic line and the standard Republican line, and that is that we favor cutting spending first rather than borrow and spend, tax and spend, or even tax cut and spend.

I think if we are going to look at a tax cut, and I know that is a big train on a fast track, we need to make sure that it is reasonable, that we do not give away the store, we need to make sure that it is smart, it is targeted as an investment, and that it is honest; that we tell the American people what the trade-off is. And the trade-off is not either we are going to dig the deficit deeper or else; if we are going to sacrifice some other programs, there are some serious program equivalences that count up to this tax cut.

As I said, I think it is a big train on a fast track, but we do need to be honest with the American people. And I think a lot of us, to emphasize the message you are hearing, a lot of us here in Congress, or some of us here in Congress, are going to be waiting for our colleagues on the Republican side to come with their proposal, and I would like to see it, and I hope that we can help them craft a good one.

But we want to be sure that if neither budget, the President's nor the majority party's budget, addresses this problem, if they come forward with a tax cut that is not reasonable, smart and honest, then we will be coming forward with a budget that we think does cut spending first.

And I do not have a question for you, if you want to respond. I just wanted to be sure to emphasize that message to you.

Ms. RIVLIN. I am glad you have. Let me make two points in response. First I would invite you to ask the town meeting audience whether they would rather have a tax cut or specific spending cuts. It is a hard question for people to grapple with. While many people say they are for deficit reduction, they tend to have a harder time accepting the concept when they hear what is actually involved in terms of spending cuts.

My other point is—

Mr. BROWDER. Excuse me. These specific spending cuts, if you ask them or if you lay out some spending cuts that would be equivalences, I think that they would still prefer that you not do that middle class tax cut.

Ms. RIVLIN. That may be true. However, my point is that asking people if they would like deficit reduction almost always elicits a positive response. Asking them if they would like specific spending cuts sometimes does not.

The other point I wanted to make is that the middle class tax cut should not be referred to as an "it," as if the President's proposal were the same as the contract's tax cut proposal. It is not. The President's proposal is a much smaller and less expensive tax cut. In addition, it is more focused than the contract's tax cut. First, it offers relief to the average American families who really need it. Second, it focuses on purposes like education and training, purposes that will help America grow in the future.

Mr. BROWDER. Thank you.

Mr. Chairman, I yield back my time.

Chairman KASICH. Mr. Lazio.

Mr. LAZIO. Thank you, Mr. Chairman. I would like to yield for 1 minute to my distinguished colleague from Ohio, Mr. Hobson.

Mr. HOBSON. Ms. Rivlin, your response to his question is something that is generally heard from people inside the beltway. What we would like to do is maybe invite you to Billings, MT, next weekend.

Ms. RIVLIN. I love Montana, but I don't know that I can get there next weekend.

Mr. HOBSON. We would invite you to go with us to hear what people are saying, because I think people inside the beltway would be very surprised to hear people come forward and say, "Hey, if it is fair and you have to cut my Social Security or my farm program, fine, just do it fairly and do the right thing."

So we would like to invite you to maybe come and hear some things, as we have heard in Columbus, OH, and in South Carolina.

Mr. SABO. Would the gentleman yield so I can ask a quick question?

Mr. LAZIO. Glad to yield.

Mr. HOBSON. We have used up all your time.

Mr. SABO. When they have said yes to that, they have also said "no" overwhelmingly for using it for a big tax cut.

Mr. HOBSON. I agree wholeheartedly.

Mr. LAZIO. Good morning, Doctor.

I want to echo what some of my colleagues have said, that I have some disappointment in terms of not seeing either the implications of a welfare reform package, which certainly will come down this year; or any restraint in terms of our fastest growing areas in the budget, the health care areas, Medicare, Medicaid, in this budget. So I am disappointed about that.

I wonder if I could go through some numbers with you briefly, just so I understand them.

Is it your claim or the administration's claim that your gross spending cuts are about \$144 billion?

Ms. RIVLIN. Yes, gross spending cuts are about \$144 billion before the tax cut.

Mr. LAZIO. Right. And the tax cut is about \$55 billion?

Ms. RIVLIN. The tax cut is for \$63 billion over 5 years.

Mr. LAZIO. And of the \$144 billion, what you call gross cuts, would it be accurate to say that—my number is \$96 billion of the \$144 billion would be simply savings from the baseline, not—

Ms. RIVLIN. \$101 billion of the \$144 billion comes from cuts in what the discretionary spending would otherwise have been; right.

Mr. LAZIO. As opposed to fiscal year 1995, how much of the \$144 billion would be a reduction over fiscal year 1995, the 1995 budget?

Ms. RIVLIN. Discretionary spending goes down about \$5 billion between 1995 and 1996.

Mr. LAZIO. So if I have a number that says \$96 billion, does that sound accurate; \$96 billion of the \$144 billion are really just savings from the baseline and not really from fiscal year 1995 budget numbers?

Ms. RIVLIN. We are talking about two or three different things here. The \$144 billion is a 5-year number.

Mr. LAZIO. I am talking 5 years.

Ms. RIVLIN. Savings from baseline, right. Exactly.

Mr. LAZIO. I am not talking about the 1995 budget. Is \$96 billion of the \$144 billion just simply cuts in the baseline difference, the change in baseline?

Ms. RIVLIN. I am sorry, but I do not understand the question.

Mr. LAZIO. We have \$144 billion in gross cuts.

Ms. RIVLIN. Cuts from the baseline, right.

Mr. LAZIO. Right. How much of those cuts are simply from an inflated baseline and are real as opposed to actual cuts?

Ms. RIVLIN. I can give you one estimate of that. As you know, we already have caps on discretionary spending. We are proposing to extend the caps on discretionary spending in 1999 and 2000.

Mr. LAZIO. That is about \$12 billion.

Ms. RIVLIN. The saving from extending the caps in those 2 years is about \$52 billion.

We have made reductions in earlier years, all of which adds up to \$101 billion in discretionary spending cuts and \$144 billion in total spending cuts.

Mr. LAZIO. So between extending the caps and taking—and making the reductions in the baseline, again——

Ms. RIVLIN. Extending the caps is a reduction in the baseline.

Mr. LAZIO. You are getting—what is your number? What did you say, \$55 billion.

Ms. RIVLIN. \$52 billion.

Mr. LAZIO. \$52 billion. So of the \$144 billion, \$52 billion is a result of reduction in extending of the caps?

Ms. RIVLIN. For 2 more years, which, in your terms, is reducing the baseline; right.

Mr. LAZIO. Let me just ask you—is my time up?

Chairman KASICH. Maybe you can get somebody to yield to you.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman. Since most of what the members of the minority have learned about the operation of this committee has come, first, from the weekend talk shows and in the news columns, it is refreshing to hear you suggest that you are open to suggestions for people to testify before the committee. And I would like to formally request that David Stockman be invited, since he occupied the office that you occupy, Ms. Rivlin, during the time that most of this mess was created.

Do you think from your reading of his writings that he might be able to offer us some insight on how to avoid doing the same thing all over again?

Ms. RIVLIN. I think he might. I first met David Stockman on the Hill when he was a staff member, not yet a Congressman. I had wanted to meet him because he wrote a terrific article about how hard it is to cut the budget. I thought, who is this bright young guy? I called him up and we have been friends ever since. I think he has a lot of insight on how hard it is to cut the budget.

Mr. DOGGETT. Ms. Rivlin, it is also informative to hear that the chairman in his words is willing to take on the special interest that defends Big Bird, but since some of us think there are some even bigger special interest than the Big Bird lobby, let me ask you if you could tell us the relative effect or cost of the tax cuts proposed

in the Republican Contract On America and those that the President has proposed.

Ms. RIVLIN. As I understand the Contract With America, the tax cuts are estimated to total about \$202 billion in the first 5 years. Our tax cuts total about \$63 billion. But, more importantly, if you go out another 5 years, the losses from the contract's tax cuts increase very rapidly. The tax loss from contract tax cuts is much larger than the tax loss from our proposal, which is both smaller and not as backloaded.

Mr. DOGGETT. Were we not to embrace the \$63 billion in tax cuts that the President has proposed, I gather we could reduce the deficit by that much more plus interest?

Ms. RIVLIN. Yes, you could.

Mr. DOGGETT. And as far as discretionary spending is concerned, were we to simply freeze it at its current level rather than to have the additions, though I think in some very good areas that you propose, but given the troubling climate we find ourselves in with the deficit, if we were to freeze discretionary spending, how much more would that reduce the deficit?

Ms. RIVLIN. I do not have an estimate on what would happen with the deficit if we were to freeze discretionary spending.

But we are proposing to do more than that to lower discretionary spending. Our proposal would give us the lowest percent of domestic discretionary spending as a percent of the GDP, since 1962.

Mr. DOGGETT. As far as Medicare is concerned, is it your feeling that if there are already changes in the Medicare program, if there are any cuts or alterations, that all of that should be directed at providing the American people better health care?

Ms. RIVLIN. I would not put it that way. I think that if there are to be reforms in Medicare and Medicaid, they must be considered as part of reforming the whole health care system.

Mr. DOGGETT. Thank you.

Thank you, Mr. Chairman.

Chairman KASICH. The gentleman from Florida, Mr. Miller.

Mr. MILLER. Dr. Rivlin, I'm—

Chairman KASICH. Would the gentleman suspend for just a second?

Doctor, I know you want to try to leave by 1. We are going to have a vote soon. Let me make a suggestion if I could. Mr. Hobson has gone over to the floor to vote and he will be back to keep the meeting running. Is that right, you can stay until 1:00?

Ms. RIVLIN. That is fine. I have a commitment at 1:00, but it is on the Hill.

Chairman KASICH. I want to make sure each member has an opportunity to ask a question, and I think if we move quickly, we can get that done.

Thank you.

Mr. MILLER. Dr. Rivlin, over here. I am not to the left, but—

I am disappointed, like several other people on both sides of the aisle, about the budget that was presented yesterday and even the response in the paper over the weekend with the leaked budget that came out last Friday and Saturday and Sunday.

Ms. RIVLIN. We were disappointed about that, too. We did not intend for it to be in the paper on Friday.

Mr. MILLER. But the response has been a disappointment because, to me, this was really a golden opportunity, really a golden opportunity to work with a Congress that really does believe in balancing the budget. This administration has talked a good game the past couple of years, but our objection to the deficit reduction plan of the President for the past 2 years has been the tax increase, not the spending cuts. We have pushed more and more for spending reduction.

So the real opportunity was there. Kind of like the Nixon China policy. Here is the opportunity: 290 of us voted a balanced budget 2 weeks ago. That is a strong commitment. The election, obviously, was a commitment to reducing the size and scope of the government. I just feel it was really an abdication of leadership to take on what is the most critical problem facing us, especially when you look to the future generations.

Even the Washington Post this morning, to quote their editorial, instead of trying to explain to Americans why it is important to keep moving toward a balanced budget, Mr. Clinton seems to have abandoned the subject. That may be clever in short-term tactics, but it is not leadership. It is not Presidential.

Let me ask you a couple of questions. Do you believe, not talking about the balanced budget amendment, do you believe we should have a balanced budget in the year 2002?

I am not talking about the amendment. I am talking should that be our goal?

Ms. RIVLIN. I think reducing the size of the deficit and getting into a position where the budget can be in balance on the average over the business cycle is the right goal. None of us can say whether conditions in 2002 will be the right ones for a balanced budget. And that is precisely the problem. It is not always good policy to have a balanced budget. If you are in a recession, it is not wise to be raising taxes or cutting spending. It only makes the recession worse.

Mr. MILLER. Why not have the glide path toward a balanced budget? This is abdication of leadership that has happened. We are saying this is the status quo. Is this acceptable? \$200 billion a year is OK, and we will not even try to go toward a balanced budget?

Ms. RIVLIN. I beg to differ. At no point in this budget have we said that a \$200 billion deficit is OK.

Mr. MILLER. The numbers show \$200 billion into the future.

Ms. RIVLIN. The numbers show that we have gotten the deficit under control. It is under \$200 billion. It is also declining as a share of GDP. The President has said, and we say it again in the budget, if we are to take further steps on deficit reduction, and we all want to, the most effective thing for us to do is to get health care costs under control.

We have to come back to health care reform, and we want to work with the Congress on that. Nothing the President has said could be interpreted as abandoning the goal of health care reform. He is very interested in working with the Congress on the issue.

Mr. MILLER. I want to come back to health care, but your comment in concluding your opening statement, is that we have presented ours; now what is yours? It sounds like we are playing a

card game of gambling; and you are saying we will not show you our cards. And that is a lack of leadership.

Let me talk about health care a minute.

Ms. RIVLIN. We have shown our cards. We are waiting for others to show theirs.

Mr. MILLER. In the glide path to a balanced budget, you would have different cards in there. Obviously, you have left health care out, as you have said.

My congressional district in Florida has the largest number of seniors than any district in the country. Saturday morning I was in Venice, FL, before 700 people at a mobile home park. I publicly talked about means testing Medicare part B before 700 seniors in my district. That is something that was in place to cut spending first in Penny-Kasich. That was in your health care proposal.

There are a number of things that we can agree on, probably. It would be controversial in moving in that direction. But why not at least take one like means testing Medicare part B, and there are a number of others that were in both our proposals and your proposals that could put us on that glide path toward the balanced budget?

Ms. RIVLIN. We do not want to pull things out of what should be a wider discussion about health care reform and say let us stick them in here to pay for tax cuts or deficit reduction. We have to look at health care reform as a whole package that we can talk about together. We cannot just reduce the rate of growth of Medicare. If we did, those costs would get shifted to the private sector. Medicare and Medicaid reform must be talked about in relation to overall health care reform.

Mr. MILLER. It is disappointing. You want all or nothing: we did not get our plan last year so we are not going to do anything.

Ms. RIVLIN. That is simply not the case. While we stick by the principles of our plan, we think there is room for discussion on insurance reform and expanding coverage to working families, especially those with children. We want to work with the Congress on the next incremental steps.

Mr. MILLER. I remain very disappointed. Thank you.

Chairman KASICH. The Chair is going to announce that we have a number of Republican members that were here when the gavel went down, Democrats who were here later, and you can actually get called on beforehand, but I am going to go to Mrs. Mink and then I will pick two Republicans for the next go round.

Mrs. Mink.

Mrs. MINK. Thank you, Mr. Chairman.

I want to very strongly and vehemently defend the Clinton administration from all of these savage attacks with respect to the costs, escalating costs of Medicaid and Medicare. I believe that the President deserves a tremendous amount of credit for having come forth with a comprehensive health reform package, and it was the Congress of the United States that failed to deal with it. I think it is very unfair now to attack this budget on the basis that it does not come forward with another plan, somewhat less, somewhat more modest perhaps, but I think it is really the responsibility of this Congress, having killed the President's proposal, to deal with that subject.

It is the major item of escalation in terms of the budget. No one denies that. But to fault this budget because it does not deal with the increasing health care costs of Medicare and Medicaid, I think, is not fair to the administration or fair to the President.

Also, I want to say that although Dr. Rivlin did not specifically address the questions of welfare reform, I also take note that the President did have a proposal before Congress and that the major increases in spending in this budget go to respond to the demand of the American public that people ought to work. And the government is assuming responsibilities to help make it possible for people to work by increasing Pell grants and opportunities for education, school to work plans, and enforcement of child support and so forth.

So I submit, Dr. Rivlin, contrary to what you said, and this is my question, does the budget not really deal with welfare reform substantively, although perhaps it does not put a number to it? Is it not true that if all the proposals that you have submitted in this budget work, that there will, in fact, be a reduction in welfare costs and all of the other attendant assistance programs that are in part of the entitlements which are so heavily criticized?

Ms. RIVLIN. Yes, I think that is a very important point. The most effective social policy is a job, and the Clinton administration has been very jobs oriented. We have created nearly 6 million jobs since we came into office. This budget is focused on better jobs, on training, and on skills. Such a focus is, as you point out, essential to enabling people to support themselves and to having welfare reform work.

Last year, we had a proposal that provided for the specific reform of welfare laws. There is a lot of common ground between the two parties on this issue, and I think that we will discuss it further. But you are absolutely right, this budget does reflect the wider effort to ensure that training and jobs are made available.

Mrs. MINK. I have one final question, and that is the President's proposal on increasing the minimum wage. Are those suggestions incorporated in this budget? And the economic consequences of such an increase, are they folded into your budget projections for the economic outlook in the next 5 years?

Ms. RIVLIN. Well, the minimum wage is not a budgetary matter and is, therefore, not reflected in the budget. But the question is a good one. We think the evidence is very strong that an increase in the minimum wage would not cost jobs, and, therefore, we do not think it would change the economic projections which underlie the budget. It would certainly increase incomes at the bottom, just as the earned income tax credit has.

Mrs. MINK. Thank you.

Chairman KASICH. It will be Mr. Smith and then Mr. Hoekstra. Mr. Smith.

Mr. SMITH OF MICHIGAN. Thank you, Mr. Chairman.

I'm tremendously disappointed as well as others, Dr. Rivlin, with the administration's budget. I suspect almost everybody in this room knows some of the tremendously tough political decisions that have got to be made in this budget if we are going to stop mortgaging our kids' future, and if we are going to have the kinds of struc-

ture that is going to allow some kind of increase in the standard of living of the American people.

I would suggest that it would be good if Republicans and Democrats and the administration got in a room and we kicked out all the pollsters and all the focus group analyzers and all the special interest lobbyists and started coming down with the decisions that we know should be made.

Mr. Browder, I would suggest maybe that your side not wait for this to see what this side is coming up with as far as the budget and budget cuts, but maybe, since you disagree with the President's budget, you might want to do what Republicans have done for the last 2 years in starting to develop where we should be cutting down on the size of governments and maybe we can mesh those ideas.

Several questions I would like to ask, and I know 5 minutes goes very quickly. One, of course, is the concern in not addressing the tremendous entitlement program that goes from currently 46 percent and grows into 55 percent. But it disappointed me when you said interest takes up 16 percent of our total expenditures.

See, that is misleading the American people. You are not considering the interest that we owe on the Social Security Trust Fund. You are not considering the interest we owe on everything else we borrow from Federal Government. That interest, as I understand it now, and that is one of my questions, is amounting to \$337 billion, which really represents almost 25 percent of all sources of revenue coming into the Federal Government.

Am I correct that your 1996 budget is going to have a total interest cost of \$337 billion?

Ms. RIVLIN. Well, there is gross and net interest. The Federal Government pays interest to itself.

Mr. SMITH OF MICHIGAN. I am talking including the interest that we owe on the Social Security Trust Fund and other trust funds.

Ms. RIVLIN. Yes, that is one part of the Federal Government paying interest to another part of the government. That is netted out in our figures. Otherwise, you would have double counting. But the figure I gave you was a net figure.

Mr. SMITH OF MICHIGAN. Let me move into the question. What is the Social Security Trust Fund's surplus that is used in this budget to offset other expenditures? What is the amount of the Social Security Trust?

Ms. RIVLIN. It is about \$65 billion.

Mr. SMITH OF MICHIGAN. So we are using \$65 billion that is not coming into surplus in Social Security Trust Fund and we are spending that for other programs. So the trust fund is not much of a trust fund.

Ms. RIVLIN. Well, the trust fund is a trust fund. But it is also true that the trust fund is running a surplus. If you did not have that surplus in the trust fund, you would have an even larger deficit in the budget.

Mr. SMITH OF MICHIGAN. Am I correct in calculating that the spending for every year of the next 5 years of this budget, the increase in spending goes up faster than inflation?

Ms. RIVLIN. I do not know.

Mr. SMITH OF MICHIGAN. Actually, it goes up about 5 percent if you figure inflation is going up 5 percent.

Ms. RIVLIN. It would be a 2-percent real increase in spending. That growth is due to the fact that entitlement programs are, as everyone in this room has pointed out several times, the fastest growing part of the budget. They are growing faster than the rate of inflation.

Mr. SMITH OF MICHIGAN. So you do agree with the calculation that our total public debts of this country in the 5 years of this budget goes up an additional \$2 trillion from \$4.6 trillion to \$6.67 trillion?

Ms. RIVLIN. I have not made that calculation.

Mr. SMITH OF MICHIGAN. Would somebody on your staff make that calculation? I think the American people should know that we are driving ourselves deeper into debt and it is a tremendous problem.

Would you agree that we should change the CPI calculations and the ramifications that has for additional government spending?

Ms. RIVLIN. There is a process in place for recomputing the CPI every 10 years. That process will come on line in 1998. Under the process, the Bureau of Labor Statistics, goes out and samples the prices of things that people buy and then reweighs the market basket.

I think it is possible to recompute the CPI more frequently, but it should only be done by using the accepted statistical methods. It is not something that should be imposed by legislation.

Mr. SMITH OF MICHIGAN. Thank you very much.

Thank you, Mr. Chairman.

Chairman KASICH. Mr. Hoekstra.

Mr. HOEKSTRA. Thank you, and it is still morning, good morning. I am not sure where to begin. I have a lot of questions and comments.

You have talked a lot about employment numbers earlier. I believe in the budget report on page 222 it shows that when you talk about nondefense cuts, we are really only reducing the size of the Federal Government by about 42,000 employees. And we keep hearing the much larger number which also factors in the reduction in the defense.

Ms. RIVLIN. Defense civilians.

Mr. HOEKSTRA. Defense civilians.

Ms. RIVLIN. Defense civilians are real people. They work for the government.

Mr. HOEKSTRA. That is correct, but it reflects a significant change in what is going on with our military. I find this document to be almost an embarrassment that government is publishing this.

In the Citizens Guide to the Federal Budget, page 17, is just one little item, debts held by the public, where we identify that in 1994 the debt is \$3.4 trillion, and we do not even acknowledge in this document that government accounts for another \$1.2 trillion of debt.

Ms. RIVLIN. You can find that figure prominently displayed in the budget. It is not a secret.

Mr. HOEKSTRA. Yes, but in the Citizens Guide to the Federal Budget—I would think if we were going to be honest with the

American people, we would give them the full amount of the deficit numbers that we are currently facing. The government is getting bigger.

The Kerrey-Danforth report says that around the year 2010, 2012 we are only going to have enough money in the budget, assuming current revenue, to pay for interest on the debt and entitlements. How can we sit here and how can the administration, in a relaxed way, say that this is a comfortable budget? What are we leaving to the next generation?

Ms. RIVLIN. This budget does not address all of the country's problems. Some of those problems have been raised this morning. One is the Medicare trust fund. Another is the fact that in the next century we are going to have a larger burden of retirees on Social Security than we have currently budgeted for. We all have to face these problems together. No one is denying that.

Mr. HOEKSTRA. When are we going to face it? It appears—I read this document and it shows 5 years of deficits of \$200 billion per year, another trillion dollars, and it seems like that is OK.

Ms. RIVLIN. We are not saying that deficits are OK. We are saying that the deficit is under control for now, but that there are serious problems looming out there, such as the growth of health care spending and a future strain on the Social Security Trust Fund.

We have not addressed all of those problems in this budget. They are problems that the Congress and the administration must face together. We have to act in a bipartisan fashion.

Mr. HOEKSTRA. I am assuming this budget was presented and maybe the assumption is wrong, as saying that what you would appreciate is this Congress to approve this budget and to move forward, which says that this is our best plan for the next 5 years. Is that correct?

Ms. RIVLIN. Yes, we would be delighted if the Congress enacted this budget.

Mr. HOEKSTRA. So you would be delighted if we in the year 2000 we would be at \$5.5 trillion debt?

Ms. RIVLIN. I don't think that is the same thing. We would be delighted if the Congress enacted this budget. But no Congress enacts a 5-year budget plan and leaves it alone. All of us will be coming back to examine many problems in the next 5 years, and this budget does not address all of those problems. But, yes, we would be delighted if Congress enacted this budget for fiscal year 1996.

Mr. HOEKSTRA. Well, I will yield back the balance of my time. This is one member that will not vote for this budget as getting us on a glide path to where you want to be by the year 2000. Thank you.

Chairman KASICH. Mr. Pomeroy.

Let me just suggest to Members if you can start heading to the floor, we are expecting a vote around noon. After Mr. Pomeroy will be Mr. Largent and then Ms. Myrick. If anybody else wants to ask questions, you might want to run over and vote and get back to keep the thing running here. Keep the car running.

Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. Undoubtedly, all of us have a great sincerity about the imperative of reducing the deficit, moving toward a balanced budget. The sincerity of my friends

across the aisle, I believe, is belied in no small amount by the fact that they have signed on a Contract With America that is going to give away \$200 billion in revenue during the measurement period before we even begin reducing the deficit. And if that is not enough, they say, well, defense, we probably should do a little more there.

What would it take, by way of cuts, to get to a balanced budget under their program? I mean, surely the chairman will have his numbers, and I take him at his word, that will get us there. I think it will be extremely interesting. Do you believe there could be a responsible restructuring of government that could accomplish it under the confines of giving away \$200 billion, freezing defense spending or increasing defense spending, and getting there with what is left?

Ms. RIVLIN. Frankly, I do not. I think that the cuts in everything else would be too deep to achieve a responsible restructuring of government. But I have not seen any glimmer of what the Republican plan might be, so it is very hard to react to it.

Mr. POMEROY. Director, some talk about just slowing the growth of government. As you look at the growth of the Medicare program, for example, I mean the growth is hard to understand. So, for example, slowing the growth to 3 percent, that has an awful lot of appeal to me. Will you tell me what components drive Medicare growth at that rate?

Ms. RIVLIN. Medicare growth is now around 9 percent per year. If you were going to cut it to 3 percent per year, you would be cutting a lot. Medicare growth is partially driven by the increase in the population eligible for Medicare—

Mr. POMEROY. Well.

Ms. RIVLIN. But that is not the main driving force behind the growth of Medicare costs.

Mr. POMEROY. How much is population, how much is new enrollees contributed to that 9 percent figure?

Ms. RIVLIN. We can look that estimate up, but it is fairly minimal. The things driving Medicare costs upward are hospital costs per patient, doctor costs per patient, and the intensity of the use of the system, that is, people are getting more intensive care per visit than they used to.

The increase in intensive care visits is not just true of Medicare, but of the entire health care system.

Mr. POMEROY. But you when are talking about essentially freezing costs at existing levels, you are talking about essentially depriving access of new enrollees to the system if you were to do that.

Ms. RIVLIN. You would be depriving new and old enrollees of access to the system. If we were to hold Medicare to 3 percent growth per year, you would have to cut services, in the year 2000, for example, by about 40 percent over what they would otherwise be. And that is not because we have any new benefits under Medicare, these are just the people who are eligible using the system as it exists today.

Mr. POMEROY. Is it still true that the oldest segment of our population is the most rapidly growing cohort, the over-85 segment?

Ms. RIVLIN. Yes, it is. That segment of the population is growing very rapidly.

Mr. POMEROY. As we demographically change, and the most aged Americans increase rapidly in number, is that what compounds the intensity feature; these people are older, sicker, and they need more intensive medicine?

Ms. RIVLIN. That is part of it. But, medically speaking, we can also do more for them than we used to. While medical technology is now more effective, it is also more expensive. It is high-tech medicine.

To return to the beginning of your question, the growth in Medicare beneficiaries is currently 2 to 3 percent per year. But the inflation in medical care costs is what is dominating the growth of Medicare costs, not increases in the number of beneficiaries.

Mr. POMEROY. So 3 percent growth in Medicare essentially just deals with new enrollees.

Ms. RIVLIN. Exactly, 3 percent growth in Medicare would merely deal with the increase in the population without keeping up with the rising costs of medical care.

Mr. POMEROY. Thank you.

Chairman KASICH. Mr. Largent.

Mr. LARGENT. Thank you, Mr. Chairman.

Dr. Rivlin, I would like to ask you a personal question, if you do not mind. Do you personally adhere to a budget yourself?

Ms. RIVLIN. You mean in my personal—

Mr. LARGENT. Household, family. Do you have a written budget?

Ms. RIVLIN. We sure try to.

Mr. LARGENT. Do you have a written budget you adhere to?

Ms. RIVLIN. No.

Mr. LARGENT. OK. The reason I ask that question, I read this guide also, the very first page refers to the fact that the Federal Government plans its budget much the same way as families do. And I accept that as being true. I am sure that in your personal budget that you adhere to that you would not continue to spend more than you have year-in and year-out and deem that acceptable.

But it is my understanding that the purpose of this meeting is to hear you rather than to hear ourselves banter back and forth and shoot political barbs across the aisle and I apologize that we have not listened to you more.

I want to refer to one of the sentences that is in this book that I agree with wholeheartedly. It says, in the end, the deficit is a decision about today and tomorrow. We can provide a solid foundation for future generations, just as parents try to do within a family, or we can generate large budget deficits and debt as our legacy to those who come after us.

That is where we are at today, whether we are going to provide that legacy of debt and hand it over to my children, my four children and everyone else's children, as well.

If the President would have given you a mandate, which apparently he did not do, but had he given Dr. Rivlin a mandate that said put us on a slope to get to a balanced budget by 2002, and he gave you a blank slate, how would you have done that? That is my question.

Ms. RIVLIN. I cannot really answer that question because nobody elected me President and Presidents do not turn over—

Mr. LARGENT. You are President for a day here. You are President for a day, so you have all the liberty to do that, please.

Ms. RIVLIN. I do not think that adhering to a firm path for balance by 2002 is a sensible thing to do.

But let me make another point in regard to this question. There are other elements of our legacy to our children. Part of it is about having good schools and giving children good starts in life, things that we are emphasizing in this budget. But I certainly agree that another important part is getting the deficit down and not leaving a legacy of debt. If we can all work together on both of those fronts, it will be a good thing.

Mr. LARGENT. So what I understand is that it is not a sensible thing to move toward a balanced budget? Why is that? I don't understand that?

Ms. RIVLIN. Reducing the deficit is a very desirable thing. The administration's actions have shown the intensity of our focus on the deficit. We now have the deficit under control and it is decreasing in relation to size of the gross domestic product.

But we are not satisfied with that. We want to work with the Congress to do more. We must do more on health care reform, first and foremost, and other kinds of entitlement changes.

Mr. LARGENT. Well, the only thing I would add, and then I will yield back the balance of my time, is that we are here to help you do more and I mean that sincerely.

Ms. RIVLIN. Good.

Chairman KASICH. Thank you, Mr. Largent.

Mrs. Myrick.

Mrs. MYRICK. Thank you. I have a couple more specific questions relative to HUD. The reinvention blueprint calls for reducing agencies like from 60 down to 3 and really consolidating and eventually moving to a complete voucher system.

Ms. RIVLIN. Right.

Mrs. MYRICK. My question is, does the budget reflect replacing this current system, the operating, modernizing and also the development subsidies to public housing authorities with a State-administered voucher system; and then, if so, why are we allowing public housing authorities to construct any more units of housing when it costs twice as much per unit as we all know to do that?

Then I have a couple more questions.

Ms. RIVLIN. Well, the budget does reflect the costs of putting the HUD reinvention plan in place over a number of years. It is a staged plan. We all feel that, in general, public housing has not been a success. But that is not universally true. Elderly housing has, as you know, worked quite well.

We would all like to change the image of public housing as massive units that have become wastelands. We believe that those must be changed; we are proposing to close many dilapidated and unoccupied units immediately. In addition, we are also moving, as you suggest, to a voucher system.

But freezing construction when things are in progress is a hard thing to do, so there may be some additional units constructed or repaired, which is even more necessary. This budget does, however, try to put us on a track to making public housing into a better ad-

ministered system that gradually works off vouchers rather than subsidizing the units.

Mrs. MYRICK. My next question is relative to HUD's homeless programs. I have had experience with this, having been mayor of a city. There has never been any flexibility, so I was delighted to see there is going to be some innovation, some chance for the States and local governments to come forward.

Ms. RIVLIN. Good.

Mrs. MYRICK. The question is how much flexibility will they have without government interference? Because that has always been a problem in the past, that even though the Feds say they turn it over, they still say you have to do this and this and this and this? Do you know what the flexibility will be?

Ms. RIVLIN. Well, that relates to the performance partnerships which I mentioned in my opening statement. We want to get away from Federal rules that say you have to do this and that and spend the money in the following ways. We would like to get to the point where the Federal Government and localities can come to an agreement on what is to be accomplished; what the end result is to be; and what are the ways of measuring it. The Federal Government would then give the locality the maximum flexibility to work toward achieving the goals set forth by the agreement.

Mrs. MYRICK. Is there going to be a coordination between the homeless programs under HHS and HUD relative to block grants? Seems like a duplication in a lot of areas.

Ms. RIVLIN. That does seem like a duplication and we have talked about that. I don't think the budget explicitly addresses that issue, but it is part of the ongoing conversation about the second phase of the reinventing government initiative.

Mrs. MYRICK. My final question is very simply that if the blueprint is enacted as you say over some years, except for some minimal oversight in some of the fair housing that would have to be administered, frankly, what is there left for HUD to do? You may or may not choose to respond.

Ms. RIVLIN. I think that is a fair question. HUD would not only continue to write the checks, as it were, but it would also have to work with the States and localities to ensure that performance is actually happening.

I would add that our proposal is not about mere revenue-sharing. We are not going to give States and localities money and fail to ask what they did with it. Our concept—and it is one that needs to be worked out very carefully between the different levels of government—is that we agree on some measures of performance and then give the States and localities maximum flexibility.

But HUD and the affected jurisdictions would have to jointly monitor what is happening under these grants.

Mrs. MYRICK. It appears that there was an increase—OK, sorry.

Ms. RIVLIN. Maybe we can talk about this off-camera.

Chairman KASICH. Ms. Roybal-Allard.

Ms. ROYBAL-ALLARD. As often happens, my questions are being asked.

Chairman KASICH. Would you like to yield to her?

Ms. ROYBAL-ALLARD. No, I would like to follow up with another question.

One of the concerns that I have is that through the consolidation process we will lose whatever positive aspects there are with respect to certain programs. For example, my understanding is that the administration is planning to consolidate a variety of health care programs, such as the community health center grants, migrant health center grants, health care for the homeless, and health care for residents of public housing grants into what is being called clusters with a common application and review process.

I understand the need for the flexibility to the States and the localities. You have partly answered the question in terms of how they are going to be held accountable which in fact has not yet been determined. It is going to be a decision between the Federal Government and the States as to how we are going to hold them accountable. Is that what I understood you to say?

Ms. RIVLIN. That is why we are calling them performance partnerships. And you are absolutely right, all of the details have not yet been worked out.

Ms. ROYBAL-ALLARD. I understand that you are going to be using performance indicators; is that correct?

Ms. RIVLIN. Yes, and those indicators will have to be developed.

Ms. ROYBAL-ALLARD. OK, but what realistic or reliable information do you have that demonstrates these kinds of performance indicators actually work? I am not convinced that they actually work. And I was wondering why you based your proposal on performance indicators. Do you have any reliable evidence?

Ms. RIVLIN. Well, I understand your skepticism, because all of the details have not yet been worked out. But health care, for instance, offers us a good example of how these indicators might work. Many health care objectives are measurable. Numbers of cases of various diseases and infant mortality rates are just two of many indicators for problems in the health care arena.

But not all jurisdictions have the same problems. In our current situation, the Federal Government often pretends that everybody is the same. We are trying to rectify that, by giving communities an opportunity to say—these are the problems we want to address and here is how we want to measure our progress. The Federal Government should be a part of that conversation, but not to the extent that we write the rules about how you should spend the money to get the result.

Ms. ROYBAL-ALLARD. Thank you.

Chairman KASICH. Let me see the line-up here.

Mr. Hoke and then Mr. Shadegg and then, finally, Ms. Woolsey, and then we will conclude with Mr. Nussle.

Mr. HOKE. Thank you, Mr. Chairman.

Dr. Rivlin, I have to say I will break ranks here and say I was not disappointed with your budget. It was pretty much exactly what I expected. It seems to me it is a bit of a "Me, too budget". It feels a lot like there is going through the motions to put something on the table. You have a responsibility legislatively to produce a budget, the President has to do that, and I think that is kind of what he has done here.

He certainly has left to Congress to make the tough choices, and it does not seem to me there is much leadership being exhibited

here in terms of taking what are very difficult choices that must be made, particularly in the medical entitlements areas. What it does do is it increases—it continues to have a \$200 billion deficit for the next 5 years and it goes up a little bit more, but it adds a trillion dollars to the debt over the next 5 years. It increases the net interest from \$204 billion in 1994 to \$310 billion in the year 2000. That is a 50-percent increase in the interest that we are paying on our Federal debt.

I think that in the sense that when you testified before our Judiciary Committee on January 10, you made it very clear then that there was really no attempt nor was there a feeling that it was necessary to really balance the budget to get to a balanced budget where outlays and receipts were in balance——

Ms. RIVLIN. You are referring to a hearing on the balanced budget amendment. I was saying that calling for balance every year, or in a particular year, was not a good idea in the context of discussing the amendment.

Mr. HOKE. I think Mr. Smith of Texas specifically asked you if there was a plan or a feeling on the part of the administration that this was a target or a goal you even wanted to work toward, and if so what was the date? And if I am wrong, if you gave a time that you would be ready to——

Ms. RIVLIN. No, I specifically did not. I do not believe that one can say the budget should be balanced in every year or that it ought to be tied to some particular number in a future year.

Mr. HOKE. I will ask the question again then: Do you think the budget should be balanced?

Ms. RIVLIN. I think the budget should be balanced on the average over the business cycle and we should get to that position as quickly as we can.

Mr. HOKE. But it would be in the next 7 years for sure.

Ms. RIVLIN. I don't know.

Mr. HOKE. The budget you have created does not do that.

Ms. RIVLIN. The best time to get to balance would depend on the economic situation. I believe a balanced budget is a possibility if we control the cost of health care and enact some or all of the changes that are in our budget.

Mr. HOKE. All right. Well, I accept that and I am glad you feel that way. Certainly there is no documentation whatever that reflects that in anything that the administration is producing.

There was one specific question, because I think I do not understand what I thought I understood you indicated; that netting out—that you would be netting out the interest payments to come to this \$204 billion figure of interest for, say, fiscal 1994. Does that mean that interest that is owed to all the various trust funds——

Ms. RIVLIN [continuing]. Interest owed to all the various trust funds is netted out of that figure. Interest paid to the U.S. Government is also netted out of that figure.

Mr. HOKE. I understand, sure. But you could gross both of those numbers up and it would give a more accurate reflection.

Ms. RIVLIN. It gives a different fixture. It is an answer to a different question.

Mr. HOKE. The answer to the question of what is the total amount of debt and what is the total amount of interest and the total amount of receipts as opposed to what are the net.

Ms. RIVLIN. Sure, both are legitimate questions.

Mr. HOKE. Do you know what the gross amount is of the interest? How much do we pay in interest, if you can get that for me?

Ms. RIVLIN. To the Social Security and other trust funds?

Mr. HOKE. Yes, Social Security and other trust funds. I want to know that because I was under the impression that we were only spending—only spending—\$204 billion a year on interest. That is apparently not the case.

Ms. RIVLIN. No, the government does pay interest to itself.

Mr. HOKE. Right.

Ms. RIVLIN. It pays interest to the trust funds the American public owns.

Mr. HOKE. There was one other thing I wanted to bring up before my time expires, and that is that I—we had a colloquy on January 10, when you testified, and I specifically asked—or you made an allegation then that if we cut spending, we would have to cut spending by 32 percent, exempt Social Security and Medicare, defense interest, in order to get to a balanced budget in 7 years. And I asked you if that was based on current services baseline. You said of course it was.

I asked you to calculate what that would be under a zero baseline. You said that you would do that. I sent you a letter. I have not received a response. I just want to get on the record again today that I would very much like to know that, because when you talk about a 32-percent cut, in fact, the truth is that we are spending more money to get to that same place, and it is only because of this alchemy of baseline budgeting that we—not you, I don't mean this in a personal way—that we inside of Washington here can abuse language in a way that truly confuses the American public.

[The information referred to follows:]

HON. MARTIN R. HOKE,
HOUSE OF REPRESENTATIVES,
Washington, DC, January 19, 1995.

Hon. ALICE RIVLIN,
Director, Office of Management and Budget, Executive Office Building, Washington, DC.

DEAR DIRECTOR RIVLIN: Thank you so much for taking time out of your busy schedule to testify before the Judiciary Committee's Subcommittee on the Constitution. It was good to hear your views on the proposed balanced budget constitutional amendment.

You indicated during your testimony that in order to achieve a balanced budget by the year 2002, we would have to cut spending by 32 percent if we exempted Social Security, Medicare, defense and interest on the debt.

You will recall, I asked you if that percentage was based on a current services baseline, and if so, what the percentage would be if calculated under zero baseline budgeting. You responded that indeed the 32 percent was based on a current services baseline and that you would be happy to redo the calculation under a zero baseline.

I am sure that your staff is working on this, but I wanted to remind you of your offer. If possible, I would appreciate having this information before the House considers H.J. Res. 1.

I would also like to include the information in the permanent record of the subcommittee hearing.

Thank you for the attention to this matter. I look forward to hearing back from you in the next few days.

Kindest personal regards.

Very truly yours,

MARTIN R. HOKE,
Member of Congress.

OFFICE OF MANAGEMENT AND BUDGET,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, DC, February, 15, 1995.

Hon. MARTIN R. HOKE,
U.S. House of Representatives,
Washington, DC.

DEAR CONGRESSMAN HOKE: I enjoyed the opportunity to appear before the House Judiciary Committee's Subcommittee on the Constitution to discuss the Balanced Budget Amendment last month. At my testimony, and again in a letter to me following the testimony, you asked what across-the-board cuts would be required to achieve a balanced budget by 2002, calculated under zero baseline budgeting methodology, assuming exemption of Social Security, Medicare, defense, and interest on the debt?

As the enclosed table shows, cuts of 24.5 percent would be required to balance the budget in 2002. The zero baseline budgeting methodology used in calculating this percentage holds total discretionary outlays constant between 1995 and 2002 at the 1995 level of \$544 billion. Within this total, however, defense is allowed to increase for inflation. Thus, non-defense spending must be restrained to meet the overall discretionary limits. As a result, by 2002 the real purchasing power of non-defense spending need to be cut by 36.7 percent from its 1995 level even before applying the 24.5 percent across-the-board cut. Put another way, real non-defense spending would need to be cut about 60 percent to balance the budget in 2002 under the conditions outlined in your question.

I apologize for taking so long to answer your question. I hope this information is helpful to you.

Sincerely,

ALICE M. RIVLIN,
Director.

Enclosure.

ACROSS-THE-BOARD CUTS TO BALANCE BY 2002 WITH DISCRETIONARY HELD AT 1995 LEVEL

[In billions of dollars]

	1995	1996	1997	1998	1999	2000	2001	2002
CBO Baseline with discretionary held at 1995 level:								
Receipts	\$1,355	\$1,418	\$1,475	\$1,546	\$1,618	\$1,697	\$1,787	\$1,880
Outlays:								
Discretionary: ¹								
Defense	270	270	278	285	295	304	315	325
Nondefense	274	274	266	259	250	240	230	219
Total, discretionary	544	544	544	544	544	544	544	544
CBO mandatory:								
Social Security	334	352	371	390	411	433	456	481
Medicare ²	176	196	217	238	262	286	314	344
Medicaid	90	100	111	123	136	149	164	179
Other	245	251	264	274	288	303	311	323
Total, CBO mandatory	845	899	962	1,026	1,097	1,173	1,245	1,328
Deposit insurance	-16	-9	-5	-5	-3	-3	-3	-3
Offsetting receipts	-77	-73	-76	-79	-82	-84	-88	-93
Net interest	235	260	270	279	292	307	318	332
Total outlays	1,531	1,620	1,695	1,765	1,848	1,937	2,016	2,108
Deficit	176	203	220	219	230	239	229	229

ACROSS-THE-BOARD CUTS TO BALANCE BY 2002 WITH DISCRETIONARY HELD AT 1995 LEVEL—Continued
(In billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002
Balance in 2002:								
Target deficit	176	174	155	116	71	59	26	0
Required savings:								
Programmatic	0	28	61	93	142	153	165	177
Debt service	0	1	4	9	17	27	39	52
Total savings	0	29	65	103	159	180	203	229
Across-the-board savings as percent of all programmatic outlays except:								
Social Security		2.5	5.4	7.9	11.5	11.9	12.3	12.7
Social Security and Medicare		3.1	6.6	9.9	14.7	15.3	16.1	16.9
Social Security and defense		3.4	7.1	10.4	15.2	15.6	16.2	16.6
Social Security, Medicare, and defense		4.4	9.5	14.2	21.1	22.1	23.3	24.5

¹ Assumes defense is inflated and nondefense is constrained to meet caps.

² Excludes SMI premiums.

Note.—Programmatic outlays exclude net interest, offsetting receipts, and deposit insurance.

Ms. RIVLIN. While I am not in favor of confusing the American public, I believe that when you think about what it costs to deliver services to the American people, whether those services are on the domestic side or on the defense side, you have to consider inflation.

If we were to tell the Secretary of Defense that he cannot count the rising costs of oil and other things, but has to deliver the same defense services no matter what inflation is, it is——

Mr. HOKE. I would say that we have to start where we do not cut, and then explain where we are going to as opposed to the opposite, because it creates all the wrong biases in the argument.

Thank you, Mr. Chairman.

Chairman KASICH. Thank you. We have three questioners left, Mr. Shadegg, who is up, then Ms. Woolsey, and Mr. Nussle. We will see if we can work them in somehow.

Mr. SHADEGG. Let me be brief.

I would associate myself with Mr. Hoke's comments. The people in my district, when they understand the word "cut" or hear the word "cut", they think it is from this dollar down to this dollar. And when you tell them it is a 33-percent cut—indeed, when you sat here today and testified it is a 33-percent cut, that strikes me as rather drastic. But when you say that is a 33-percent cut from where we were going to go, had we proceeded along the projection, I think the American people deserve to know, well, we are here, it will grow X percent, if we want to reduce it, we have to cut it a certain percentage from that. Or, conversely, state to them here is what the growth is going to be, not a 33-percent cut, because they think it is a 33-percent cut from where we are.

Ms. RIVLIN. I think they need both numbers because they also need to understand——

Mr. SHADEGG. But they do not have the first number, the number Mr. Hoke asked for. And I join in that request for that number.

Ms. RIVLIN. Yes, but let me finish.

The American people also need to know that if we were to hold Medicare, for instance, to 3 percent growth per year, they would get much less in the way of services. They would not be eligible for

benefits when they went to the doctor. That is important for them to know, too.

Mr. SHADEGG. Precisely. But if they do not know how much it is going to pay for that, then they cannot know where you are coming from when you say it needs a 33-percent cut.

Mr. SHAYS [presiding]. Would the gentleman suspend for 1 second? You have already voted; correct?

Do you want to go vote now and quickly come back?

Ms. WOOLSEY. No, I cannot. I have to—

Mr. SHAYS. The gentleman may continue.

Mr. SHADEGG. I have similarly not voted, so I will try to be brief.

I have focused on a couple of your comments today and I am telling you I am disappointed in the President's budget and I am actually confused about the budget process at this point. Today, in your earlier remarks, you said the President is wholly behind welfare reform but it would have served no purpose to restate his position on that in the budget.

Why would it not have served a purpose if he believes in welfare reform to put a figure in the budget saying this is my idea and there is where I think we can get on welfare reform and how much we can save?

Ms. RIVLIN. It would not have served a purpose because we are engaged in active negotiation with Members of Congress as well as Governors and mayors to come up with a common proposal. We think there is some common ground there. We do have a proposal. We had the proposal before the Congress last year. It is very specific. Everybody knows about it. But we now think we need to work with the Congress and with the States.

Mr. SHADEGG. On the new proposal, but from this budget, since there is no figure for welfare reform, it appears you have abandoned that, at least on the face of the budget.

Ms. RIVLIN. We have not abandoned it. We simply did not put it in the budget because we are in active negotiation over it.

Mr. SHADEGG. You said today in your testimony you want us to enact this budget the way it is, which I guess sends to me the message that you do not want to accomplish welfare reform in this budget.

Ms. RIVLIN. I didn't say that I didn't want to accomplish welfare reform. I said that enacting this budget would be a good start. But Congress should not enact a budget and do nothing else. Clearly, there are things we would like to work on with the Congress, as we have in the past.

For example, look at the General Agreement on Tariffs and Trade. GATT had bipartisan support. It had to be paid for. That was not easy. But we worked it out with the Congress and got it passed.

Mr. SHADEGG. Would it not have then been useful if the President wanted to get to welfare reform or Medicare or Medicaid reform, or wanted to deal with the issue of the Medicaid trust fund going broke, to have put some flag out there and said I think we need to—I recognize these problems and here are the amounts I think we can save. When I start a negotiation, I usually say what I want and then I negotiate.

Ms. RIVLIN. We have put out the flag on welfare reform and we want to work with you on it. This budget does not list every issue on which we would like to work with the Congress.

Mr. SHAYS. I would love Ms. Woolsey to be able to ask a question. Is that all right?

Mr. SHADEGG. I would yield. Thank you.

Ms. WOOLSEY. Oh, thank you for yielding. I am such a compassionate person. I sit here so you are not going to be alone. And I didn't want everybody to be alone over there. And I also am finding myself feeling so sorry for the disappointment on the other side.

Ms. RIVLIN. It is tragic.

Ms. WOOLSEY. It is tragic, and I am anxiously awaiting the new majority's plan to meet their disappointment, and I am hoping that that plan will not get in the way of something in this budget that you agree with and the President agrees with, and I do, and that is that education is truly the No. 1 investment in this country.

I have been so pleased that the budget invests in helping kids go to college and that the American people know this should not be a bipartisan or a partisan issue. They are 89 percent in favor of financial aid to students, and they agree that financial aid and investing in American students is the way to go.

I am going to cut through a whole bunch of stuff, but if the Contract on America did what it was going to do, how do you think that would impact students and student aid?

Ms. RIVLIN. If the budget is to be balanced and the contract's large tax cut financed, you would have to cut all kinds of programs, including student aid. I, too, am worried that the contract would negate the great progress that we have made in improving opportunities for students to go to college.

This budget emphasizes not only elementary and secondary education, but student aid as well. We are administering the direct loan program in a more effective way than ever before. We believe the direct loan program is saving the government billions of dollars, and we have accelerated it accordingly. The colleges that are participating seem very satisfied with the program. We have also increased the amount of Pell grants. The individual grant is higher in this budget than it has ever been and is helping millions of low-income students to get the education they need.

Ms. WOOLSEY. Thank you.

Mr. SHAYS. Ms. Rivlin, we are going to get you out of here by 1 because I know you have a 1 o'clock meeting.

Ms. RIVLIN. Good.

Mr. SHAYS. Mr. Allard and we appreciate the fact you have been here 2½ hours and appreciate your testimony. Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman.

I would have to assess this budget as a status quo budget. It does not do anything differently as far as health care is concerned, whether it is Medicare or Medicaid, whether it is welfare reform. I serve on the Ag Committee and I was very interested what you said about farm programs. You did not go into detail there. So I guess I must join—

Ms. RIVLIN. We think you are going to reauthorize the farm bill.

Mr. ALLARD. Let me finish and I will give you a chance to respond.

Ms. RIVLIN. Sorry.

Mr. ALLARD. I must join the chorus of those who have expressed disappointment in this budget. I simply feel also that the deficits are too large. We are not moving toward a balanced budget, which in our amendment would be required in 2002.

I have stated repeatedly in order to get there that we have to keep our spending rate at 2 percent. This year's budget from the President is a 5-percent growth in spending and then you projected on an average, over the next 5 years, 4.4 percent growth. This is more than twice the rate of growth that would be required to get to the balanced budget by 2002.

Now, I would agree with you and the President that we should challenge the Congress to do better, and I am confident that we will and I would like to remind my Republican colleagues that we will have to come up with close to six times as much as the administration in spending restraint. The American people really elected us to do a job and I think we must do that.

I would like to ask two questions pertaining to agriculture: the administration's budget shows \$1.5 billion in farm commodity savings this year. It shows the baseline for farm programs dropping to \$6.4 billion by 2000. Now, this is \$2 billion lower than what CBO reflected.

I guess looking at your figures here, you apparently are assuming \$1.5 billion in farm program savings from policy changes after 1998, and I do not see any detail in this plan and no information on the administration's farm proposal that will get us to that. And that is the card I would like to have you turn over for this committee so we can see how you got to that figure.

Ms. RIVLIN. I can provide more details on the figure. I do not think we have any policies cutting into 1998. There may be estimates of what happens to the farm economy in that period and the phasing in of some of the changes that were made in accordance with the GATT agreement. But I will get you details on that.

We soon hope to have a new Secretary of Agriculture who has a lot of experience working in the Congress on farm programs. And we will work with the Congress as you develop the 1995 farm bill. But as you know—

Mr. ALLARD. I will be looking forward to your response to this question in detail. If you are right, if that is an improved farm economy, I, with a lot of other farmers, will be just delighted. But I have a feeling this has more to do with the difference in policy and I want to see that.

Ms. RIVLIN. OK, we will spell that out for you. But we have not put the changes that we expect in the farm bill into this budget. There is no hidden agenda here.

Mr. ALLARD. Well, I guess you can see why I say this is a status quo budget. Every question while I have been here talks about Medicare, Medicaid, farm, or whatever, and there has been no change.

Let me bring up another question. The administration calls for nearly \$13 billion in user fees, and some of these I would have to categorize as taxes. For example, \$106 million in higher meat and poultry inspection fees. There is no choice in these inspections. If

you are in the business, you have to pay them; and, therefore, I think they become taxes.

Would you agree with me that these are actually higher taxes on a particular industry since there is no choice? It is not like going to a park and you pay the fee because you choose to do that. You have to provide meat and you have to provide food for this country, and so in that way it is a targeted tax; would you agree?

Ms. RIVLIN. No, I would not agree with you. The meat and poultry industry wants to sell meat and poultry that does pass the government test. This is a user fee like other kinds of user fees.

Mr. ALLARD. I would have to respectfully disagree with that. I think it is a targeted tax, but I see my time is over with so I will yield back to the chair.

Mr. SHAYS. Thank the gentleman. Mr. Brownback, thank you for waiting.

Mr. BROWNBACK. Thank you, Mr. Chairman.

Thank you, Dr. Rivlin, for your time and patience with us.

Just a couple of real basic questions. Do you support or have you supported balancing the budget?

Ms. RIVLIN. Oh, yes. In fact, I am on record saying an appropriate stance, overall, on the average, for a country whose savings rate is quite low, and ours is, might well be a surplus in the Federal budget, particularly in the unified budget.

Mr. BROWNBACK. At this point in time, where you have a growing economy and a nation not at war, we should be running surpluses.

Ms. RIVLIN. We are running a surplus in the Social Security Trust Fund. We need to come closer to balance in the rest of the budget.

Mr. BROWNBACK. But it is your professional opinion we should be running a surplus right now?

Ms. RIVLIN. I don't believe we should be running a surplus at this particular moment because we could not get there without damaging the economy. But as a goal for the future, I think that balance on the average would be a good thing.

Mr. BROWNBACK. By when?

Ms. RIVLIN. I cannot give you a particular date. It depends on the economy and the other goals the government is trying to accomplish. It would be self-defeating to get to balance by cutting public investment that is needed to make the economy grow faster.

Mr. BROWNBACK. So in the government agencies and the transfer of payments we do now are investments?

Ms. RIVLIN. No, I did not say that.

Mr. BROWNBACK. But you said we cannot cut those investments without hurting the economy.

Ms. RIVLIN. No, you are twisting my words. I said that the desirability of getting to balance at any particular moment depends not only on the state of the economy, but on what one would have to cut to achieve balance. It would not be sensible to cut into investments in things that help grow the economy, that is, improving the skills of the work force, to get to balance, because the objective of getting to balance is to improve the economy.

Mr. BROWNBACK. So you are pleased with continuing deficits around \$190 billion, inflation of—

Ms. RIVLIN. I am not pleased with the deficits and neither is the President. But we have gotten the deficit under control. To reduce the deficit further, we need to address the growth of health care costs; we must all do that together.

Mr. BROWNBAC. You are just not willing to lay a plan out there now to do that, basically?

Ms. RIVLIN. That is true. We want to work with the Congress on formulating a plan.

Mr. BROWNBAC. On the Department of Energy, you have gone to some fanfare about reorganizing the Department of Energy.

Ms. RIVLIN. Yes, we have.

Mr. BROWNBAC. But your budget sends it up this coming year rather than cutting it back. That does not seem to be quite the right way to go with the huge debt that we have and everybody's displeasure with the ongoing deficit.

Ms. RIVLIN. It appears to go up this year because of commitments we have already made to the Department. But over the next 5 years, we are downsizing the Department of Energy considerably. We have begun that process this year by improving contracting for the environmental cleanup, which is a very big part of the Department's budget. We think we can reap considerable savings from making the contracting more efficient.

Mr. BROWNBAC. In these transition times and realigning these agencies, do you think we may be at a point in a couple of years possibly that we could eliminate a Federal agency, possibly if we are looking at the Department of Energy; or HUD is one that the administration has signaled for significant realignment in?

Ms. RIVLIN. We looked at that option with respect to those two agencies and the Department of Transportation. We decided that we need those Departments, but that they could be substantially restructured and do their jobs more effectively.

Mr. BROWNBAC. So your position is, then, we need all the government we currently have.

Ms. RIVLIN. No, that is not my position. We have proposed terminating several small agencies. We have proposed terminating 130 programs. We have proposed the substantial downsizing and restructuring of five agencies and of other departments. We will be proposing more. What I said was that we looked very carefully at eliminating HUD, Energy, and Transportation and while we decided that we needed the agencies, we also decided we needed them to do their jobs better.

Mr. BROWNBAC. But you floated a plan back in December to eliminate HUD, I believe energy was in that and transportation?

Ms. RIVLIN. That is what I am talking about. We looked at whether we needed those agencies. We decided that we did. In the case of Transportation, we need a Federal agency that is in charge of ensuring that our national transportation system works and is safe for those who use it. So we did not think the agency should be eliminated. We believe it should be restructured.

Mr. BROWNBAC. Thank you, Dr. Rivlin.

Mr. SHAYS. The gentleman's time is up.

You have 3 more minutes. I would yield a minute-and-a-half to Mr. Land and I will take a minute-and-a-half and you will be done.

Mr. ALLARD. I would ask unanimous consent that we send a letter from this committee to the Office of Management and Budget that Ms. Rivlin explain within a week the \$1.5 billion in farm program savings from those apparent policy changes after 98.

Mr. SHAYS. I am a little uncomfortable with the gentleman's request given we do not have both sides represented.

Ms. RIVLIN. I will satisfy your discomforts; we will be happy to get back to you within a week.

Mr. SHAYS. Then that will be done.

Mr. ALLARD. Thank you.

[The information referred to follows:]

OFFICE OF MANAGEMENT AND BUDGET,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, DC, February, 14, 1995.

Hon. WAYNE ALLARD,
U.S. House of Representatives,
Washington, DC.

DEAR CONGRESSMAN ALLARD: In my testimony before the House Budget Committee last week, you asked a question regarding the farm program savings proposed in the 1996 Budget. The Budget assumes \$500 million in savings each year FY 1998 to FY 2000, for a total of \$1.5 billion. These relatively modest savings do not reflect a specific proposal, but represent conservative estimates of savings likely to be achieved in the farm bill.

The Administration currently has an interagency task force that is reviewing options for the commodity programs, as well as the host of other programs addressed in the farm bill. We look forward to working with Congress this year on this important legislation.

I hope this response helps to answer your concerns. Please call or write me if you have further questions.

Sincerely,

Alice M. Rivlin,
Director.

Mr. SHAYS. Ms. Rivlin, I just wanted to ask you what does it mean that you want to work with the Congress on these issues that are not in the budget? I do not know quite how to interpret it.

Ms. RIVLIN. I think it means many different things that depend on the issue at hand. On welfare reform, there are many conversations taking place between the administration and Members of Congress. We hope the same thing will happen when we address health care reform.

Last year the country learned how many congressional committees are involved in health care reform. It is a large number. We hope that the Congress will soon begin focusing on health care reform once again.

In the meantime, we can take incremental steps toward the principles the President has laid out by getting together to talk about what can we do to solve the problem.

Mr. SHAYS. Could I know if there is some consensus that the 10-percent increases in Medicare and Medicaid need to be brought down closer to 5 or 6 percent annual growth? Would that be a logical goal for us to try to work together with you on?

Ms. RIVLIN. I would not venture to give a number, but I think there is consensus that the rate of growth of health care costs generally, private and public, is too high.

Mr. SHAYS. But I want to pin you down a little more. On Medicare and Medicaid, it is going up 10 percent.

Ms. RIVLIN. 9 percent in our budget.

Mr. SHAYS. Based on your assumptions; correct? CBO does not agree with those. But based on your assumptions or CBO's assumptions, do you agree we have to get the growth down lower than that 9 or 10 percent?

Ms. RIVLIN. Yes, I think if we are going to make a significant long-run contribution to deficit reduction those costs have to grow less rapidly. Those programs have to be reformed, but not by themselves. The reform of Medicare and Medicaid has to be part of overall health care reform.

Mr. SHAYS. I thank you very much for appearing. You have been a very fine witness and we appreciate your spending the time and honoring the committee. This hearing is adjourned.

Ms. RIVLIN. Thank you.

[Whereupon, at 12:45 p.m., the committee was adjourned.]

PRESIDENT CLINTON'S FISCAL YEAR 1996 BUDGET

THURSDAY, FEBRUARY 9, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Representatives Present: Kasich, Hobson, Walker, Miller, Lazio, Smith of Michigan, Inglis, Hoke, Molinari, Largent, Myrick, Brownback, Radanovich, Bass, Sabo, Stenholm, Slaughter, Mollohan, Johnston, Mink, Orton, Pomeroy, Browder, Olver, Roybal-Allard, and Meek.

Chairman KASICH. OK, we will come to order and we will have two witnesses this morning. Dr. John Makin is the senior vice president, chief economist at Caxton Corp. in New York City, a major investor in foreign exchange commodities and currency markets. He is also a resident scholar, director of fiscal policy studies at AEI.

Prior to joining both AEI and Caxton, he was director of the Institute for Economic Research, professor of economics at the University of Washington in Seattle. Of course you have got to ask him why he left there. He has served as a consultant to the U.S. Treasury, Federal Reserve System, and of course the great IMF, the Bank of Japan, and numerous leading corporations.

He is currently a member of the panel of economic advisors of the CBO. I won't press you on why you left Seattle, but, Doctor, we will look forward to your testimony this morning and I really don't have an opening statement. Martin, anything you want to—

Mr. SABO. No. Just say welcome and look forward to hearing your comments and I am sure we will have some questions. I glanced through your testimony, and it seemed very certain that Medicare and Medicaid were going to go to 10 percent, rather than 9 percent, continue on the growth rate of CBO rather than what the administration tried to do. I am particularly curious about that.

Mr. MAKIN. Should I start then?

Chairman KASICH. Yes, go ahead.

STATEMENT OF DR. JOHN MAKIN, RESIDENT SCHOLAR, DIRECTOR OF FISCAL POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE AND CHIEF ECONOMIST, THE CAXTON CORP.

Mr. MAKIN. Mr. Chairman, and members of the committee, thank you very much. It is a pleasure to be here. Let me just say, I left Seattle because it rained too much. But otherwise, it is a great place.

My comments are probably in your hands and I am going to go through them as quickly as I can and I will embellish them a little bit because, as always, when you are coming down on the plane, you look at your comments, you think, why didn't I add this or that? So the text will be altered a little bit, but basically the thrust will be the same.

And really what I am going to suggest is I am going to go through some arithmetic that is very familiar to all of you and just offer a kind of overview perspective and then if there are questions, be happy to try to deal with them.

The President's 1996 budget proposal is the 12th budget proposal on which I have been asked to comment over the last 12 years, so this appearance has a little bit of a ritualistic feel to it for me. During this time, it has become clear to me that Presidential budget proposals are largely tactical documents and perhaps are best viewed as signals regarding the intentions of the administration about deficit reduction.

And of course the signal coming from this document, as I will suggest, is not encouraging as far as deficit reduction goes.

The President's 1996 budget proposal is a deficit lowball budget that underestimates the deficit by at least \$200 billion based on a comparison with CBO numbers. As a lowball budget, it breaks the string of several highball budgets that overestimated prospective deficits in order to rationalize tax increases and/or spending cuts, and then marvel at the actual deficits that came in below "forecast."

We have come full circle from the mid-1980's when Republican administrations sent up deficit lowball budget proposals in an effort to cut momentum for tax increases, having succeeded in cutting taxes in 1981, 1982. Now we have a Democratic administration lowballing budget deficit estimates to a Republican Congress in an effort to discourage spending cuts, having achieved a tax increase in the 19—fiscal year 1994 budget. Of course, those who want tax increases seize on the underestimation of deficit in the President's budget and suggest that tax cuts are impossible.

The use of the President's budget proposal as a tactical document is of course clearly understood by all of the players in Washington, but it is poorly understood by the public at large and is perhaps responsible for some of the public's impatience with the deliberations of Congress and the administration over the budget.

The President's budget, like other tactical budget proposals, highlights the need for a balanced budget amendment in a very specific sense. If the President were required to send up a balanced budget the size of the lies necessary to rationalize such a budget, if it remains a tactical document, will be large enough to be spotted easily, perhaps even by members of the general public.

In this sense, a balanced budget amendment might be helpful in improving the discourse on prospective budget deficits. As I have already mentioned, I suspect that the President's proposal underestimates budget deficits by at least \$200 billion in the years from 1996 through 2000.

I come to this conclusion based on a comparison between the President's deficit estimates and estimates provided by the CBO. The CBO's higher estimate of cumulative deficits is due largely to an apparent difference in the treatment of inflation and its effect on mandatory entitlements. There also appears to be a modest overstatement of revenue in the President's budget proposal based on a comparison with CBO's projections.

The President's budget also underestimates prospective deficits by virtue of the fact that it assumes no recession between now and the year 2000. This expansion began in March 1991, implying that the President's budget assumes an expansion lasting at least 116 months, more than twice the average post-war expansion of 50 months.

I can say that most analysts expect a recession sometime during 1996, the duration of which is difficult to gauge, but which normally would last about a year. Automatic stabilizers, that is, higher outlays and lower receipts, will increase the budget deficits. A 1-year 1-percentage-point undershoot of GDP growth, other things equal, adds about \$135 billion to the budget deficit over a subsequent period of 5 years. A likely recession, together with CBO assumptions on revenues and outlays, would mean that the President's budget underestimates the cumulative 1996 to 2000 deficit by over \$300 billion.

An examination of CBO projections regarding Federal outlays makes it easy to identify the necessary condition for achieving a balanced budget, easy I should say arithmetically.

The average annual growth rates from 1995 to 2000 of major entitlement programs are as follows and these are CBO's estimates, not mine. Social Security 5.32 percent, Medicare 10.2 percent, Medicaid 10.6 percent. Discretionary income is about stagnant while interest payments on the debt are of course closely tied with projections of interest rates over a period of 5 years and they are difficult to argue about since very few people have much of an idea where interest rates will be a month from now, let alone 5 years from now.

The growth rate of outlays on Medicare and Medicaid are clearly—is clearly too high, especially when compared with the sharp deceleration in the rise of health care costs in the private sector. Health care provision in the United States has been highly inefficient in the past, but it is in the process of being rationalized by the private sector.

Medical care inflation, which has averaged 7 percent a year over the past decade, fell to 5 percent last year. It is expected to drop further in 1996 and thereafter. Some corporations, with whom I have spoken recently, expect actually to see a reduction in health care costs during 1995 and 1996.

Clearly the rationalization of Medicare and Medicaid should be high on the agenda in order to reduce the growth of outlays.

Outlays on Social Security, expected to grow at 5.3 percent per year, continue to rise too rapidly due to full indexation of Social Security benefits to the Consumer Price Index. When all is said and done, the best way to maintain real purchasing power of Social Security benefits is to set the indexing formula equal to about two-thirds of the increase in the Consumer Price Index.

Broadly speaking, the intensity with which adjustments are applied to mandatory spending or to some discretionary programs depends upon when or if it is desired to balance the budget. Between 1995 and the year 2000, mandatory outlays will rise at about 7 percent per year while discretionary outlays will rise at zero percent a year.

With discretionary spending constant, balancing the budget by the year 2000 would require cutting the overall growth of outlays from about 5 percent per year to about 2.5 percent a year. Obviously actual cuts in discretionary spending would relieve some of the burden on mandatory spending, but since mandatory spending, including interest on the debt, constitutes 71 percent of total outlays, it is almost arithmetically impossible to balance the budget without slowing the growth of spending, not cutting, I would add, but slowing the growth of spending on Social Security, Medicare, and Medicaid.

Another broad perspective on the budget is in order. Over the past 30 years, revenues have typically stood between 18 and 19 percent of GDP, while outlays have ranged from 20 to 23 percent of GDP. I take it as collective wisdom based on actual behavior that the American people are not prepared to pay much more than 18.5 percent of their income to the Federal Government, while the Federal Government is not yet prepared to reduce its outlays to much below 22.5 percent of income.

It is also true that, in my judgment, higher taxes and especially higher tax rates levied within our current tax system would do more harm to the economy than would continued budget deficits of \$200 to \$300 billion a year. That suggests ruling out further tax increases that either we shall have to accept deficits equal to about 3 percent of GDP or we shall have to cut annual spending by the Federal Government by the equivalent of between \$200 billion and \$250 billion current dollars over a period of 6, 7, 8, or 9 years depending on how quickly we want to approach a balanced budget.

That is not a very drastic problem when you think about the case of Mexico, for example, just to put this in perspective. Mexico's current account deficit, that is their excessive borrowing, their excess of borrowing from the rest of the world, is running at 8 percent of their GDP and in the IMF adjustment package, which they may or may not achieve, it is proposed that the spending and in effect the budget deficit of the Mexican Government be cut by the equivalent of 4 percent of GDP in 1 year. So to talk about reducing our budget deficit by 3 percent of GDP over a period of 6 or 7 or 8 or 9 or 10 years is hardly radical surgery.

And so by the standards of adjustment achieved in other countries, and I would add to that list some of the European countries as well, as well as the UK, and in the private sector, these changes in the budget are modest that belie the intensity of the rhetoric that surrounds them in discussions inside the beltway.

Here again. I think some of the dissatisfaction of the general public with the budget process in Washington is that there is so much hue and cry about dealing with what most households and businesses would see as an entirely manageable problem.

Having said all this, I think that many of the Members of Congress agree with this broad assessment of the budget, and I am optimistic about the prospect for elimination of the budget deficit as an issue in public policy. The sooner we achieve that goal, the sooner we can get on with the urgent task of creating a tax system that minimizes the cost of raising what revenue we want to raise and disposing of the current system, which is about as efficient at raising revenue as attempting to retire the national debt by putting a toll booth on the Memorial Bridge.

Thank you.

Chairman KASICH. Thank you, Doctor.

[The prepared statement of Dr. John Makin follows:]

PREPARED STATEMENT OF DR. JOHN MAKIN, RESIDENT SCHOLAR, DIRECTOR OF FISCAL POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE AND CHIEF ECONOMIST, THE CAXTON CORP.

First let me offer my thanks to the Chairman and members of the budget committee for providing me with an opportunity to offer comments on the Presidents FY 1996 budget proposal.

The President's FY 1996 budget proposal is the twelfth budget proposal upon which I have been asked to comment over the last 12 years. During that time it has become clear to me that Presidential budget proposals are largely tactical documents and are best viewed as signals regarding the intentions of the Administration about deficit reduction.

The President's FY 1996 budget proposal is a deficit "lowball" budget that underestimates the budget deficit during the 5 years from 1996 to the year 2000 by at least \$200 billion, based upon a comparison with CBO numbers. As a "lowball" budget it breaks the string of several "highball" budgets that overestimated prospective deficits in order to rationalize tax increases and/or spending cuts and then marvel when actual deficits came in below forecast.

We have come full circle from the mid 1980's when Republican Administrations sent up deficit lowball budget proposals in an effort to cut momentum for tax increases, having succeeded in cutting taxes in 1981-82. Now we have a Democratic Administration lowballing budget deficit estimates to a Republican Congress in an effort to discourage spending cuts, having achieved a tax increase in the FY 1994 budget. Of course those who want tax increases seize on the underestimation of deficits in the President's budget and suggest that tax cuts are impossible.

The use of the President's budget proposal as a tactical document is of course clearly understood by all of the players in Washington but is poorly understood by the public at large and is perhaps responsible for some of the public's impatience with the deliberations of the Congress and the Administration over the budget. The President's budget, like other tactical budget proposals, highlights the need for a balanced budget amendment in a very specific sense. If the President is required to send up a balanced budget, the size of the lies necessary to rationalize such a budget, if it remains a tactical document, will be large enough to be spotted easily, perhaps even by members of the general public. In this sense, a balanced budget amendment might be helpful in improving the discourse on prospective budget deficits.

As I have already mentioned, I suspect that the President's proposal underestimates budget deficits by at least \$200 billion in the years from 1996 through 2000. I come to this conclusion based on a comparison with the President's deficit estimates with deficit estimates provided by the Congressional Budget Office in January of 1995. The CBO's higher estimate of cumulative budget deficits is largely due to an apparent difference in treatment of inflation and its effect on mandatory entitlements. There also appears to be a modest overstatement of revenues in the President's budget proposal based on a comparison with CBO's projections.

The President's budget also underestimates prospective deficits by virtue of the fact that it assumes no recession between now and the year 2000. This expansion began in March of 1991, implying that the President's budget assumes an expansion

lasting at least 116 months, more than twice the average postwar expansion of 50 months. I can say that most analysts expect a recession sometime during 1996, the duration of which is difficult to gauge, but which normally would last about a year. Automatic stabilizers—higher outlays and lower receipts—will increase the budget deficit. A 1-year 1-percentage-point undershoot of GDP growth, other things equal, adds about \$135 billion to the budget deficit over a subsequent 5-year period. A likely recession together with CBO assumptions on revenues and outlays would mean that the President's budget underestimates the cumulative 1996–2000 deficit by over \$300 billion.

An examination of CBO projections regarding Federal outlays makes it easy to identify the necessary condition for achieving a balanced budget. The average annual growth rates from 1995 to 2000 of major entitlement programs are as follows: Social Security 5.32 percent, Medicare 10.2 percent, Medicaid 10.6 percent. Discretionary spending is about stagnant, while interest payments on the debt are of course closely tied to projections of interest rates over a period of 5 years and are therefore difficult to argue about since very few people have much of an idea of where interest rates will be a month from now, let alone 5 years from now.

The growth rates of outlays on Medicare and Medicaid are clearly too high, especially when compared to the sharp deceleration in the rise of health care costs in the private sector. Health care provision in the United States has been highly inefficient, but it is in the process of being rationalized by the private sector. Medical care inflation has averaged 7 percent per year over the past decade but fell to 5 percent during the last year. It is expected to drop further in 1996 and thereafter. Some corporations expect actually to see a fall in health care costs during 1995 and 1996.

Clearly the rationalization of Medicare and Medicaid should be high on the agenda in order to reduce the growth of outlays.

Outlays on Social Security, expected to grow at 5.3 percent per year, continue to rise too rapidly due to full indexation of Social Security benefits to the Consumer Price Index. When all is said and done, the best way to maintain real purchasing power of Social Security benefits is to set the indexing formula equal to about two-thirds of the increase in the Consumer Price Index.

Broadly speaking, the intensity with which adjustments are applied to mandatory spending programs or to some discretionary programs depends upon when/if it is desired to balance the budget. Between 1995 and the year 2000 mandatory outlays will rise at about 7 percent per year while discretionary outlays will rise at zero percent per year. With discretionary spending constant, balancing the budget by the year 2000 will require cutting the overall growth of outlays from about 5 percent per year to about 2.5 percent per year. Obviously actual cuts in discretionary spending would relieve some of the burden on mandatory spending but since mandatory spending, including interest on the debt, constitutes 71 percent of total outlays, it is almost arithmetically impossible to balance the budget without slowing the growth of spending on Social Security, Medicare and Medicaid.

Another broad perspective on the budget is in order. Over the past 30 years revenues have typically stood between 18 and 19 percent of GDP, while outlays have ranged from 20 to 23 percent of GDP. I take it as collective wisdom based on actual behavior that the American people are not prepared to pay much more than 18.5 percent of their income to the Federal Government while the Federal Government is not yet prepared to reduce its outlays to much below 22.5 percent of income. It is also true that in my judgement higher taxes (tax rates) levied within our current tax system would do more harm to the economy than would continued budget deficits of \$200–\$300 billion per year. That suggests, ruling out further tax increases, that either we shall have to accept deficits equal to about 3 percent of GDP or we shall have to cut annual spending by the Federal Government by the equivalent of about 200 billion current dollars over a period of 6, 7, 8, or 9 years, depending on how quickly we want to approach a balanced budget. By the standards of adjustment achieved in other countries and in the private sector these are modest changes that belie the intensity of the rhetoric that surrounds them in discussions inside the Beltway. Here again, I think some of the disaffection of the general public with the budget process in Washington is that there is so much hue and cry about dealing with what most households and businesses would see as an entirely manageable problem, not to mention Mexico which is expected to cut its budget deficit by 4 percent of GDP in 1 year.

Having said all this, I think that many of the Members of Congress agree with this broad assessment of the budget and I am optimistic about the prospects for elimination of the budget deficit as an issue in public policy. The sooner we achieve that goal, the sooner we can get on with the urgent task of creating a tax system that minimizes the cost of raising revenue and disposing of the current system

which is about as efficient at raising revenue as attempting to retire the National Debt by putting a toll booth on the Memorial Bridge.

Chairman KASICH. I have got a few questions for you. First of all, I want to talk to you about the CPI. Dr. Greenspan has estimated .5 to 1.5 overestimation of CPI, and you suggest in here the best way to maintain real purchasing power, Social Security benefits, is set the indexes formula equal to two-thirds of the increase in CPI. Talk a little bit about that. Talk a little bit about what your feelings are about Dr. Greenspan's comments and recommendations and how would you perceive—we have a Bureau of Labor standards that doesn't—simply says they need a couple years to fix this thing.

How would you proceed?

Mr. MAKIN. Well, I think you raise two important issues. One is what is the best way to calculate the Consumer Price Index, and two, what is the best way to maintain the purchasing power of the recipients of entitlements benefits.

On the CPI index, every graduate student in economics learns that price indices are imperfect because if they have fixed weights, as the CPI does over a long period of time, when the price of tomatoes goes up by 300 percent, it assumes that you buy just as many tomatoes. Well, so you tend to overstate inflation on that basis.

There is a more difficult problem, and this is something that Chairman Greenspan was getting at, quality adjustments. Let me give you an example. The price of gasoline in Northeastern cities went up by about 8 cents a gallon last—2 months ago, and I certainly noticed it at the pump, and the reason was that the gasoline was rebled to cut pollution.

Now, the increase—the price increase that the Bureau of Labor statistics calculated was zero because they assumed that this was a quality improvement. Now, you can agree or disagree with that, but it brings you back to the biggest problem of inflation measurement, quality adjustments.

The price of automobiles, again, I know Chrysler Corp. has argued this point, certainly the price of a standard automobile has gone up in the last 5 years measured as a standard automobile, but with quality adjustments, you now have dual air bags, disc brakes, more efficient engines, and so on, maybe the price has actually gone down.

Computers are another case. You all know that when you want to buy a new computer, your computer specialist in the office says no, no, wait 6 months, it will be much better. Quality adjustments are very difficult to deal with in price indices.

So those two problems are formidable ones. The—Chairman Greenspan's estimates on the upward bias in the CPI of 1.5 percent are certainly on the high side of what I would estimate. I would think that the CBO's numbers, 0.2 to 0.8, would be more appropriate, but again, there is the issue of, is the CPI measuring the cost of standard goods. That is an important issue. We need to address that.

Then there is the other issue of how do we maintain the real value of entitlement benefits. That requires looking at the market basket, the recipients of the benefits and adjusting for the weighting problem and the quality problem.

I say two-thirds, which is sort of—it is a very rough and ready number. Somebody might say, it should be three-fourths. Somebody might say it should be a half. Two-thirds is an approximation. We know that there is an upward bias, and we know that the upward bias has been cumulative. It has been going on since 1975 when benefits were first indexed, so that the two-thirds is a gradual—even if it is an exaggeration, it is a very gradual correction for 20 years of having overindexed the benefits for entitlements.

The intention of the Congress, as I understand it, was to maintain the purchasing power of entitlement benefits. The effect has been to increase the real purchasing power of those benefits and in effect has been a transfer from young to old, the payroll—the workers who pay the tax and the recipients.

If it is the intention to do that, that is fine, but if the intention is to maintain the real purchasing power of entitlement benefits, then there should be some adjustment in the indices formula.

Chairman KASICH. How would you do it? If you were in our shoes and you wanted to get a good CPI estimate that once we come out with one, of course whatever it is, we are going to have some squealing on—depends what our estimate is as to how Mr. Sabo will scream, although I know he knows it has to be changed, but I can't read his mind.

I am working on it, but I can't get there quite yet. How would you get a disciplined group of economists together that could make a recommendation that would—that the community would be able to say, yes, yes, that is pretty good? How would you go about doing that?

Mr. MAKIN. It has really been done, and that is where I come up with the two-thirds, which I would say take a rough and ready number. If you reconvene the experts, you are going to have a lengthy argument.

We all know that CPI overstates what we are trying to do to maintain real purchasing power for entitlement benefits. The National Science Foundation laid out tens of millions of dollars over a long period of time for a group of economists to try to adjust for the quality changes that are a big source of the bias in price estimates.

This was so—if you are going to measure productivity, you have to measure the real increase in machinery units against output and so to do that, you have got to get the price right. How do you price a unit of computing services. How do you price a unit of automobile services when the automobile is changing?

Again, I emphasize, if you got into—get into a car that is 10 years old, maybe some of you own cars that are 10 years old, fine. Get into a new car, get into a car that is 10 years old, cars are not the same machinery anymore.

Chairman KASICH. You haven't been in my Jeep, but you are right.

Mr. MAKIN. Well, what year is it? So that these—I don't think what we need—we don't need more subtle study on this issue. I think two-thirds is a good number.

Chairman KASICH. I want to ask you one final area and that is the area of health care costs in the private sector, which I know you have spent time studying.

Tell us what we would anticipate seeing in the private sector in terms of rates of growth and, secondly, if you would outline the programs that have moved us in there and whether you believe they are applicable to the government-run health care system.

Mr. MAKIN. Well, as I mentioned in my testimony on the basis of very broad statistics, we have already seen a slowdown in health care inflation from 7 percent over—average over the past decade to 5 percent.

The private sector response to the President's proposal I think was essentially, look, we are working on this. We have to control our costs. If there is anything different about this recovery, it is this is a cost control recovery where the private sector knows they can't pass health care costs or other costs onto their customers or they are not going to be able to maintain market share.

So what you had is a big effort, top management at the big corporations, Exxon, all the large corporations, has devoted its attention to slowing the increase in health care costs. If you brought them in, I think you would hear them say we have had a lot of success, because it was easy, the way health care was being administered 3, 4, 5 years ago was so inefficient that it was very easy to bring down the increase in costs while maintaining quality. Looking ahead, we are hearing—

Chairman KASICH. Let me ask you to kind of elaborate on that. You say that it was easy because the system was very inefficient. What do you mean by that?

Mr. MAKIN. The delivery systems—and here I am venturing into an area where I am not an expert, but what you see happening is they are moving to health maintenance organizations where, within the health care providing body, is a trained physician who is exercising some discretion on the use of health care benefits, and making some of the hard choices that are made in Canada, Japan, and elsewhere where health care costs have not risen as much as the United States. I will be very specific.

Suppose a 75-year-old individual wants to have very expensive surgery against a—or some kind of hip repair, something like this. There may be an adjustment. The health care maintenance organization may say, well, we are not going to pay for the whole thing. We will pay for it for somebody who is 35, the reason simply being that the benefits to the person 35 are a lot greater than the benefits to the person 75. Very tough choices are being made by physicians on the use of health care benefits.

Cosmetic surgery, again, another issue where you have an administrator who is a trained physician who says, you know, we are not going to use collective funds for cosmetic surgery, and this would be—this would be proactive cosmetic surgery. Obviously cosmetic surgery where there is an accident would be a different case. But what you have got is someone intelligently trying to say, what should we fund and what shouldn't we fund?

And then also, the delivery systems are being changed. There are obviously a lot of routine things that can be done by paramedics or trained nurses rather than doctors, and the doctor's time is being preserved for the things that are more challenging and more appropriate for doctors.

It is a kind of an obvious rationalization that has resulted in some tremendous savings, and I am hearing from some companies now that actually look for their health care costs to go down next year, and the quality of the health care they are providing has not—seems to be good. They are not having employees saying, you know, I am unhappy, I am not getting what I need.

In fact, in some cases where people aren't having to wait to see a doctor because they have a runny nose, they are instead seeing a nurse that can administer the medicine much more quickly and there is less waiting time, the delivery is actually being improved.

Chairman KASICH. Thank you, Doctor.

Mr. Sabo.

Mr. SABO. Thank you.

In testifying for 12 years, have you seen a President's budget you liked?

Mr. MAKIN. Let me think. Well, you know, I don't think I really have.

Mr. SABO. Has any President—

Mr. MAKIN. But it hasn't mattered because the President's budget never bears any relationship to what actually comes out. So I don't get—I mean, what happened after 6 years was I stopped reading through the budget because I knew it wouldn't bear any relationship to reality, and the newspaper guys have called me up 3 minutes after it came out, all had questions that I could only answer by going through the appendix.

Mr. SABO. You used last year's answer and it fit?

Mr. MAKIN. No. They are all—as I said—

Mr. SABO. Let me ask this. Has any President ever predicted a recession over the next 5 years while they are in office?

Mr. MAKIN. No.

Mr. SABO. If you were to make recommendations to us and clearly you think we should bring the deficit down, would you start as first priority with a big tax cut?

Mr. MAKIN. Well, no.

Mr. SABO. I am curious about health care in terms of your study and what happens in the private sector. Has any of that involved companies that have significant programs for retirees?

Mr. MAKIN. You mean—I am sorry. Health care programs or retirement programs?

Mr. SABO. Yes, for the companies that you worked with. Because we are told, and I am not sure if it is accurate or inaccurate, is that there are differences when you come to an aging population, particularly as you get to the very old, from the problems you have when you are dealing with major group plans that are basically providing benefits to people under age 65, and they may run into major health care problems occasionally in that age group, but the bulk of the major health care problems are going to happen in an older age, and that is why I am curious.

There are some companies that do have significant benefits where they continue supplemental benefits for their retirees to supplement Medicare. I am just curious if you found any distinction in these companies between what happens with a pre-retiree group versus a post-retiree group, which is more likely to cover people from maybe some—somewhat before 65 through the lifespan.

Mr. MAKIN. Well, certainly let me first say that as we all have sadly discovered, age brings with it more medical problems, and the cost of maintaining health goes up as people get older.

And a lot of—the companies—the big Fortune 500 companies certainly do have health care programs for retirees. They have found that it is possible—it is more costly to finance a health care program for retirees, but even there, the costs can be brought down. I think a good example—

Mr. SABO. Are they similar or different though?

Mr. MAKIN. Well, let's look at another case. Look at Japan which has a much more rapidly aging population than the United States and a much more rapidly increasing age—life expectancy and they spend 7 percent of GDP on health care.

So it obviously can be done without damaging health, and I think a number of—again, U.S. companies have looked at ways to rationalize the system and certainly it costs more to maintain health of a person at age 65 or 70 than it does at age 35 on average, but the whole cost curve, which is upwardly sloping as people get older, is shifting down.

Mr. SABO. I would just be curious if there have been any studies in particular that relate to companies, regarding any differences or similarities between post and past retirees for any of the major companies that run extensive supplemental benefits programs. I would like to see them if they exist.

Mr. MAKIN. I think again, you should not ignore the cross country evidence. When you look at Canada, UK, Japan, and I think—Japan is a case I have spent a lot of time on. Again, a population that is aging more rapidly, has a bigger demographic problem than we have in terms of aging where health care expenditures relative to GDP are lower and again, life expectancy is rising more rapidly.

Mr. SABO. Again, if there have been studies on Japan, I would be curious to see if, in any of those studies, what distinctions there are between pre- and post-retirees.

Mr. MAKIN. Well, this is why you look at Japan because Japan is aging more rapidly than the United States and so—

Mr. SABO. I am not quarreling with that. But I would just be curious where there savings are, younger or older, or how it fits and—

Mr. MAKIN. Well, it would be difficult for Japan to have—with a more aged population and a more rapidly aging population, to have health care costs as a share of GDP that are significantly—I mean almost by a factor of a half—below those in the U.S. without dealing with the problem of health care among the elderly.

Mr. SABO. I understand that, but I am just curious if there are—even in Japan, if there is a distinction between pre-65-year-olds and post-65-year-olds.

Mr. MAKIN. I am sure that in Japan the cost of health care for someone who is older than 65 is on average higher than someone younger than 65.

Mr. SABO. That is not my question.

Mr. MAKIN. What is your question?

Mr. SABO. If there is a change in cost escalation—given that they have a lower base, if there is a change within Japan in cost escalation between their preretirees or their older population.

Mr. MAKIN. Well, certainly relative to the United States—look, this is hard information to get, but you look at a country that is aging faster than the United States which has lower health care costs and more rapidly increasing life expectancy in all cohorts.

Mr. SABO. What is their basic system of health care in Japan?

Mr. MAKIN. Well, again, it is not as convenient as ours.

Mr. SABO. How is the basic structure?

Mr. MAKIN. Essentially health care is rationed.

Chairman KASICH. Dr. Vedder has just arrived. Doctor, I tell you what, I am going to give you 5 minutes on the clock here and you got to do it in 5 and then you can take questions.

Fire away. Summarize. You got 5 minutes.

STATEMENT OF DR. RICHARD K. VEDDER, PROFESSOR OF ECONOMICS AND FACULTY ASSOCIATE, CONTEMPORARY HISTORY INSTITUTE, OHIO UNIVERSITY AND RESEARCH FELLOW, INDEPENDENT INSTITUTE, OAKLAND, CA

Mr. VEDDER. Well, Mr. Kasich, that is cruel and unusual punishment, and I don't take that from my students, but I guess I have to take it from you, although I don't know why. I have tenure and you have term limits.

Chairman KASICH. I might let you slide for an extra minute.

Mr. VEDDER. OK. I have four basic points, Chairman Kasich and members of the committee. The rhetoric about the budget that I have been reading I think is somewhat dishonest and continues the misleading interpretations of Federal fiscal actions that have been taking place in our Nation for years. So in my mind, the budget is not just a fiscal issue, it is a moral issue.

Secondly, despite some promising reductions in Federal programs in President Clinton's budget, my judgment is on balance this budget increases the Federal command over resources. Real nondefense spending is slated to rise by over 6 percent, for example, which is about double the rate of inflation. I think this will have an adverse effect on American economic growth and is not a growth budget.

Third, by not attacking deficit financing, I think this budget continues the attempt by Washington to tax the people through stealth methods rather than through more morally accepted explicit taxation, and it certainly makes a mockery of the notion that we are moving toward a balanced budget.

And fourthly, and I think closely related to the previous point, the budget continues a worrisome trend in American life, namely the efforts of the politically powerful members of our adult population to redistribute the burden of their irresponsible fiscal actions onto children who are relatively helpless and politically powerless.

So other than that, it is a good budget. Now, I could elaborate at any length you want on these points and that length is 3 or 4 minutes, I guess, but I would point out just one thing. The President says, and I quote in his budget message on page 3, "My budget keeps us on the course of fiscal discipline by proposing \$81 billion in additional deficit reduction through the year 2000."

Now, I am from a rural area in Appalachian Ohio and the people where I am aren't very sophisticated, but they tell the truth. I look on the previous page and I see the actual numbers of the budget

for 1995 and the year 2000 and the deficit in 2000 is \$2 billion, roughly, larger than in 1995. The accumulated total is a \$31 billion increase in deficits compared with what we anticipate happening this year. This is not deficit reduction.

Another thing, and I think the Chair will disagree with me vehemently on this, I think it ought to become a criminal offense to present budgets 5 years and particularly 10 years into the future. Ten-year budgeting is crazy. Economists have no idea how to project economic conditions that far ahead. Politicians and policies change.

I took Bush's 1991 budget and looked at the 1995 projections to show that this is a bipartisan remark and it appears that revenues in 1995 will be \$140 billion less than Darman projected in 1991—1990, which actually understates the error since we had a tax increase in between and we have \$62 billion more in spending than Bush said in 1990, so if I may play on the names of some OMB Directors, Chairman Kasich, we have gone from Darmangeddon on to Alice in Wonderland, and that is a bipartisan thing.

I just think you have got to get your act together in terms of procedures and all. You can't look that far ahead, and we do need to make cuts. Now, it is not a growth budget. I have spent the last 15 years doing studies on State and local experiments in budgeting, in fiscal actions. There is crystal clear evidence from the States and from international data that increases in State and local government spending are negatively correlated with economic growth. The evidence is clear on this so this is not a growth budget. It is not achieving the goals of growth. It is not achieving fairness and equity in the sense of providing accurate information to the American people on what you are doing.

Now, I have used up 6 minutes, I think, Chairman Kasich. I would be glad to elaborate.

Chairman KASICH. Well, I want to thank you for being here, Doctor, and you will have a chance to elaborate.

[The prepared statement of Dr. Richard K. Vedder follows:]

PREPARED STATEMENT OF DR. RICHARD K. VEDDER, PROFESSOR OF ECONOMICS AND FACULTY ASSOCIATE, CONTEMPORARY HISTORY INSTITUTE, OHIO UNIVERSITY AND RESEARCH FELLOW, INDEPENDENT INSTITUTE, OAKLAND, CA

Chairman Kasich and members of the Budget Committee, I wish to make four points. First, the recent rhetoric over the new Federal budget continues the dishonest, misleading interpretations of Federal fiscal actions that have plagued our nation for years. As such, this budget is not merely a fiscal issue, it is a moral issue. Second, despite some promising reductions in Federal programs, on balance this budget increases the Federal command over resources, which will have an adverse effect on American economic growth. This is not a growth budget. Third, by not attacking deficit financing, this budget continues the attempt by Washington to tax the people through stealth methods rather than through morally acceptable explicit taxation. It makes mockery of the professed support that the President indicated for balancing the budget. Fourth, and closely related to the third point, the budget continues a worrisome trend in American life, namely efforts by politically powerful adults to redistribute the burden of their irresponsible fiscal actions onto children who are relatively helpless and politically powerless.

MISLEADING INTERPRETATIONS OF FEDERAL FISCAL BEHAVIOR

I am an economist and will speak a good deal in the next few minutes about economic incentives, growth rates, and so on, but I must confess that my concerns with this budget deal as much with morality as with economics.

My problem with the budget begins with the first page of the "Budget Message of the President" (Budget, p. 3). The President says, and I quote: "My budget keeps us on the course of fiscal discipline by proposing \$81 billion in additional deficit reduction through the year 2000." Now, I am from a rural area in Appalachian Ohio, and folks where I come from are often not terribly sophisticated, but they tell the truth. I think they would interpret the President's statement to mean that the President is proposing tax and spending measures that will make the deficit in the year 2000 some \$81 billion less than in this fiscal year. In Washington, however, apparently a budget deficit increase becomes a decrease by some Orwellian twist of words.

Looking at page two of the document, I see the proposed deficit in 2000 is \$194.4 billion, compared with an anticipated deficit of \$192.5 billion this year. Doing a little arithmetic, it is clear that the President is saying the deficit in the year 2000 is going to be \$1.9 billion larger than at present. But I realized my error: I was ignoring the years between fiscal year 1995 and fiscal year 2000—the President's statement obviously refers to a cumulative deficit reduction figure for the 5-year period. But then I observed that in every single year from 1995 to 2000, the President foresees an increase in the deficit over existing levels, accumulating to over \$31 billion over the 5 years. Instead of \$81 billion in deficit reduction, we have \$31 billion in deficit accumulation. This distortion of facts, accepted uncritically by most of the media, turns a budget which actually increases deficits into a deficit reduction document. To do so is not merely misleading, it is immoral. It contributes to the public's disillusionment with government. A business behaving in that fashion most likely would face legal action. What we have here, in my judgment, is lying to the American people. While you cannot probably legislate morality, I hope you adopt procedures that discourage this practice. Spending and taxes one year should be compared with spending and taxes in another year, not some mythical figure based on some baseline projections.

In this regards, I think you should amend the 1974 Budget Act to make it a criminal offense to present budgets 5 years in the future. Economists have no idea how to project economic conditions that far ahead with the remotest accuracy. That aside, policies and politicians change. To show you that this is a nonpartisan statement, I took President Bush's 1991 budget and looked at his 1995 projections. It appears that revenues in 1995 will be about \$140 billion less than Budget Director Darman then projected, which actually understates the error since taxes were raised in 1993 and that was not projected. Predictably, outlays in 1995 will be \$62 billion over the Bush 1991 projections. The projected \$9 billion surplus in 1990 now is a deficit of over \$192 billion. The deficit error exceeded \$200 billion. To play on the names of OMB directors, we have gone from Darmangeddon to Alice in Wonderland. To any member of this committee I issue a challenge: show me any Federal budget projection since this budget procedure was established that is close to accurate for the fifth year, and I'll buy you a steak dinner, ethics laws permitting.

THIS IS NOT A GROWTH BUDGET

The budget calls for increased nondefense outlays of \$83 billion for the coming year, an increase of 6.5 percent over projected figures for the current fiscal year. After allowing for expected increases in consumer prices of slightly over 2 percent, the Administration proposes increasing real nondefense Federal spending by double the rate of inflation, or over 2 percent on a real per capita basis. As a percent of total output, nondefense outlays will rise. Total outlays will show an extremely small decline of about one-tenth of one percent.

A budget promoting economic growth would reduce the diversion of resources away from private uses. Dollar for dollar, the private sector makes more efficient use of resources than the public sector. Private resource allocation is stimulated by the discipline of the market, and private entrepreneurs are financially rewarded in the form of bonuses, stock options, dividends and the like for minimizing the use of resources per unit of output, while public sector managers often are rewarded for increasing their public spending relative to services provided. Moreover, the presence of special interest groups means that many public resources get diverted from relatively productive taxpayers to less productive people trying to enrich themselves from the public treasury—us economists call this "rent-seeking."

The states are a marvelous laboratory to evaluate the impact of increased government spending. Research that I have done for the National Center for Policy Analysis indicates a strong negative correlation between increases in state spending and the rate of economic growth. The same thing is observed internationally. Two scholars analyzed data for 107 countries over the period 1970 to 1985 for the prestigious National Bureau of Economic Research and concluded, and I quote, "a balanced-

budget increase in government spending and taxation is predicted to reduce output growth rates." Other studies abound. By increasing rather than reducing the real level of government expenditure, the Clinton 1996 budget is not promoting an expansion of the rate of economic growth.

DEFICIT FINANCING IS DISGUISED TAXATION

Except in rare circumstances, any time government increases its spending it forces the private sector to reduce its expenditures. Federal spending crowds out private spending for consumption and investment. The one important qualification is that spending for government transfer payments redistributes some private sector spending more than reduces it, although when those transfers burdens productive individuals relative to less productive ones, they can have adverse output effects.

The crowding out of productive sector activity by Federal spending occurs if that spending is financed by taxes, by borrowing, by printing money, or even by expropriation. Deficit financing crowds out private spending by raising interest rates and/or by increasing prices. Someone is burdened by deficit-financed spending, just as surely as they are if the spending were tax-financed.

Moreover, deficit financed spending can be objected to on moral grounds. The burden of tax financing is typically easy to observe, whereas the incidence and nature of the burden with deficit financing is illusive. Deficit financing is stealth taxation, which is why politicians like it. You burden the taxpayers but they don't know it. Indeed, it is not clear which taxpayers bear the burden and in what amounts. It is the fiscal equivalent of making decisions behind closed doors. I can only conclude that those engineering deficits are attempting to avoid accountability for their actions. The marginal political benefits of deficit-financed spending are greater than for tax-financed spending so it is done for political expediency, despite its violation of a basic democratic principle of providing voters with information to allow them to evaluate those making policy.

To be crystal clear, I am not advocating replacing explicit taxes for debt-financed forms of disguised taxation. I want to reduce the Federal command over resources through spending reduction. Beyond that, there are some forms of tax reduction that are highly desirable because of the adverse supply-side effects of taxation. Our almost confiscatory taxation of capital gains is an obvious example. Indeed, I favor a radical rationalization of the Tax Code, such as Representative Arme's flat tax proposal.

INTERGENERATIONAL EFFECTS

A very good case can be made that adults of our generation are doing things today that will lower the quality of lives of our children. Thus we tolerate mediocre schools and education, we have presided over a rise of teenage drugs, pregnancy, crime and suicide, and we have promoted fiscal policies that lower our rate of savings and investment, reducing both the capital stock available for our children and their standard of living. I like to call it "Youthanasia." I think we do it for a variety of reasons, but mainly because kids are politically and financially powerless, and redistributing the burden of policies to future generations can sometimes win points with short-sighted adults today, people who vote and give money to campaigns.

Persistent deficit financing means the national debt will continue to rise, increasing interest payments in the future. If current deficit-financing served to increase national productivity today because it induced productive investment spending, it conceivably could be justifiable. But there is no evidence that this is what is happening in this budget. We can reduce the burden of the budget on the American taxpayer by selling Federal debt today to foreigners, but our kids will pay. Again, the morality of all of this is questionable at best.

This statement does not deal with many issues. For example, in my book with Lowell Gallaway, "Out of Work: Unemployment and Government in Twentieth-Century America (New York: Holmes & Meier, 1993), we demonstrate that deficit financing does not provide fiscal stimulus, as some claim. Some might say, "where would you cut spending to reduce the deficit and stimulate growth-inducing private sector activity?" I can say to you: that is your decision. Clearly you need to reduce subsidies, such as for farmers, and entitlements, including rationalizing Medicare/Medicaid and constraining Social Security without actually reducing monthly checks to recipients. You should cut spending for Amtrak, the arts, undemonstrated Federal education projects that reduce local school autonomy, state and local grants, and so on. The President is to be commended in wanting to get rid of the Interstate Commerce Commission. But there are bigger fish to fry. Just for starters, I suspect that occupational accidents in the United States would have been no greater in 1994 if the Occupational Safety and Health Administration did not exist. Yet I read that

it is in line for a double digit increase in funding. Would America be a worse place without the Legal Services Corporation, the Export-Import Bank or the Small Business Administration? I doubt it. The list goes on and on.

The House Budget Committee can play a constructive, leading role in restoring truth in budgeting, morality to government, and in promoting economic growth, by adopting a strategy that significantly reduces, not increases, real Federal spending, thereby reducing the deficit and the damage it imposes on present and future Americans. Thank you.

Chairman KASICH. How about we will go to Congressman Miller and then to Congressman Stenholm, unless, Martin, you have a question. We will come back. We will come back.

Mr. MILLER. Let me go back to some basic economics so I can get a better understanding of Economics 101 type stuff. I was, as I think some people on both sides of the aisle were very disappointed, that the budget was—did not really address the deficit.

In projecting the \$200 billion deficit off into the future, which I don't think you want us to project anyway, but at any rate, the question I have in basic economics is the relationship of economic activity to the deficit spending. Keynesian tells you the more you spend, that stimulates economic activity. Explain to me why reducing the deficit and making it go to zero would help the economy and how does that relate really to that—you know, to that middle class American we keep talking about, the relationship?

What is it to them, to that middle class American? What is the advantage of getting to a zero deficit?

Mr. MAKIN. Very simply, the United States is a country that has to import savings equal to about 2 percent of GDP and one of the reasons is that the Federal Government absorbs part of the saving by spending more than it takes in, and the Federal Government of course moves to the front of the line when it comes to absorbing saving because they have the best credit rating so they just shoulder the private sector out of the credit market.

That I think—that is one of the problems is that you have less access to borrowing, to build capital and so on in the private sector. I think a more important point is that raising revenue is costly. That is, when you tax the economy, the cost is greater than just the tax you take in. The example I gave is, suppose you had to raise all of our revenue by putting up toll gates.

That is the worst system you could think of because essentially the collection of the taxes is costly and there are ways to design the tax system that minimize that cost, and basically it is low tax—low and uniform tax rates levied on consumption. So there you are. I am out of the closet. I am a low tax rater, consumption tax person.

But—so a bigger deficit means you have got to raise more taxes to pay the interest and/or deal with the higher level of government spending, so that increases the dead weight loss on the economy.

Mr. MILLER. Address this issue about solving it by reducing spending. Ignore the tax thing. Assume taxes stay the same. If we only do it by reducing the spending level to get to the balanced budget, what impact is that going to have on the economy?

Is that going to have a positive impact?

Mr. MAKIN. It is going to have positive and negative impacts, but the net will be positive. Obviously if you slow the growth of spending on programs that are getting more costly, Medicare and Medic-

aid, that will hurt some people up front, but if you force them to rationalize the supply of medical services, as we have seen can be done in the private sector, ultimately you will have some benefits.

Again, I just go back to a simple premise. It is clear that 18.5 percent is about the limit on revenues, and the Federal Government insists on spending 22.5 to 23. We would be better off if we got spending down to 18.5 and then rationalize the tax system so that we minimize the cost of collecting the 18.5.

That is essentially my agenda, and it is clear—I think my colleague here has referred to a lot of evidence that suggests that countries that move in that direction tend to have higher growth rates because you have less dead weight loss in collecting the taxes and you have more access to credit for the private sector.

Mr. VEDDER. And I would agree exactly with everything that Mr. Makin said. I would add also that essentially if you achieve a zero deficit—if you achieve a balanced budget through spending reduction, which is what you are asking, and you assume that tax increases are off the table, and I think they are for the reasons that John mentioned, what you in effect are saying, we are going to increase the amount of resources commanded by the private sector relative to the resources commanded by the public sector over time. To be sure, some people will lose in the process, others gain in the process.

But the private sector dollar for dollar is more efficient in its use of resources than the public sector, not because people in the public sector are bad or wrong. I am a public sector employee, I might add. The incentive systems and so forth in the private sector with market disciplines work in a more efficient way to increase total output in the long run, and so it tends to be more output-inducing to reduce government spending to allow greater private spending in the long run.

Mr. MILLER. Do I have time for one more question?

Chairman KASICH. Sure.

Mr. MILLER. On the business cycle, when we are on the down part of the business cycle, what do we do about a balanced budget when revenues are down and certain——

Mr. MAKIN. You have to—I mean, there are built-in stabilizers where spending goes up when things slow down and tax revenues go down. I mean, one way to deal with that is you balance the budget on average over a period of 2 or 3 years, because otherwise, you could get into a situation where the economy is slowing down, budget deficit will go up. We know that. So you build in a mechanism that has you not reinforcing the slowdown.

Mr. MILLER. Should government cut spending—during like businesses when they have a slowdown, they have to cut spending. Should government cut their spending during a recession?

Mr. MAKIN. Not the best time.

Mr. MILLER. Dr. Vedder.

Mr. VEDDER. Well, to answer—I am an economic historian so I like to look at historical examples, and we had one period in American history where we moved with a vengeance with a budget deficit equal to 20 percent of our gross domestic product to a budget surplus in a period of 12 months and this was at the end of World War II.

Now, at the time everyone said we were going to have double digit unemployment. I mean everyone said this. There were one or two kooks who didn't say it who they put away, but what happened to the unemployment rate? Well, it peaked at 3.9 in 1946. It actually hit some intermonth highs at 4.1 or 4.2.

What I am suggesting is that the economy's ability to respond to a reduction in fiscal stimulus is amazingly strong. You might say World War II is a special case. There were a lot of other things going on then. Price controls were removed in the middle of 1946, and so on, but my analysis of 20th century economic history is that fiscal stimulus generally is overrated as a counter cyclical tool, and an orderly reduction in the budget over time would become built into expectations of economic actors, as we say, consumers and producers and all, and I think would have a very benign effect in terms of cycles.

Chairman KASICH. Thank you. And no, you cannot ask one more. Mr. Stenholm.

Mr. STENHOLM. Mr. Vedder, Dr. Makin, responding to a question earlier, the first question of Mr. Sabo, could you see any reason why we ought to start this discussion of reducing the deficit with a tax cut, what would be your response to that?

Mr. VEDDER. Well, I think—I love tax cuts. I agree with Dr. Makin.

Mr. STENHOLM. Let the record show all of us love tax cuts. No one is opposed to cutting taxes.

Mr. VEDDER. And we love our mothers too. Most of us.

Chairman KASICH. Are you with the Department of Economics? Is that—

Mr. VEDDER. I favor a rationalization of the Tax Code, including moving to consumption taxes, flat rate taxes, marginal—lower marginal rates and so on. I favor radical reform more than minor incremental reform.

I think cutting \$15 billion or \$20 billion in taxes this year is of the lower order of magnitude in terms of its economic impact along the lines suggested. I do think we can raise the 19 percent or the 18.5 percent that Dr. Makin is talking about in ways that are more rational and more efficient than at the present, and that we can get a lot of gain from moving in that direction.

But I do believe the reduction in the budget deficit is a matter of importance if it means spending reduction. Deficits are implicit taxes. So if you reduce taxes explicitly and you increased the deficit in so doing, you are moving from explicit to implicit taxation. That in itself is not too helpful. If the form of tax reduction brings about efficiencies in the economy because they are good tax cuts in terms of economic incentives, the effects may be more positive.

Mr. MAKIN. Can I make a comment? Suppose you were to totally reform the tax system and collect—by the way, people say, oh, we have to get to work on this.

The blueprint for tax reform that was produced at the end of the Ford administration by David Bradford is a clear outline on how to reform the tax system to minimize the cost of collecting taxes. If putting that into place said that the budget deficit would go up by \$100 billion, I would say hurry up and do it.

Mr. STENHOLM. The other question that I want to ask you, can you give me the pros and cons for the argument of exclusion of Social Security from consideration of balancing the budget?

Mr. MAKIN. There are none. I mean, they are all—Social Security outlays are outlays that have to be financed by taxes.

Mr. VEDDER. They are Federal activity.

Mr. STENHOLM. We have a lot of rhetoric going on around this town right now that the only way that we will vote for a balanced budget constitutional amendment is that if we put into the Constitution that we specifically exclude Social Security.

Are you saying that that is not a valid—

Mr. MAKIN. I would like to add that you exclude from any reductions in and outlays any expenditure on economists.

Mr. VEDDER. In fact that might be something you ought to tax is economists.

Mr. SMITH OF MICHIGAN. Especially older ones.

Mr. MAKIN. Right. Especially older. That is nonsense.

Mr. STENHOLM. You mean you are saying it is nonsense for a Member of Congress—

Mr. MAKIN. I didn't say that. I haven't been away from Washington for that long.

Mr. STENHOLM. All right. You are saying that it is nonsense for anyone that is not a Member of Congress to say that we should be excluding Social Security from any consideration for purposes of balancing the budget?

Mr. MAKIN. I would say that, you know, we all have a comparative advantage. The gentlemen in this distinguished body I think are probably distinguished by their ability to tell people necessary bad news, and part of the necessary bad news is that, you know, you could put Social Security on, you could put Social Security off. There is a lot of money there.

The real value of Social Security benefits has been going up since 1975, and it was intended to stay constant, and it constitutes a generational tax where people in the work force are subsidizing people who are retired. We want to provide constant purchasing power for retirees.

I don't think we want to provide increasing purchasing power for retirees, especially when you consider the generational distribution of wealth. On average, that doesn't make any sense. So I mean to take Social Security off budget is simply to suggest that—I mean, believe me, the bond market doesn't know when the government has to sell bonds to pay Social Security benefits or to pay for defense. All they know is the government is selling bonds. The effects on the economy are identical.

So if you are looking at it that way, or—anything that you exclude from the deficit reduction process is somehow going to increase the burden on the rest, especially when it is such a big item. So it is arithmetic.

Mr. VEDDER. I agree with Dr. Makin on the economics of it. I understand the political dimension is quite different, but I think the next great political leader of our Nation, and I don't know which party he or she will come from, the next great political entrepreneur in this Nation will be the one who finds a way to tell the American people how to accept a significant reduction in this pro-

gram in a way that is politically palatable and acceptable. I think you perhaps underestimate, in spite of Danny Rostenkowski getting beat up by old people, the ability and the willingness of American people to face up to this situation even in the short run, although admittedly I am a tenured professor and you are running for office every 2 years.

Mr. STENHOLM. Might be helpful if you would go ahead and say what you really think about us Congressmen, and if you two won't do it, we can get other people to, instead of pandering to us.

Thank you.

Chairman KASICH. It is a good point.

Mr. Lazio.

Mr. LAZIO. Mr. Vedder, good morning. Mr. Makin.

I always wondered where the chairman got his exuberance and after hearing you, Mr. Vedder, I now understand it is sort of an Ohio thing.

Mr. VEDDER. Ohioians are usually considered to be undistinguished—we are always 25th out of 50 States in everything. We are in the middle, but some of us try to break out of that mold a little bit.

Mr. LAZIO. I just want to ask you a couple questions about 5-, 6-, 7-year budgets. You have in your testimony expressed some skepticism about the ability of us to accurately project into those years. Right now that has become a central argument, especially on the Senate side, where some people profess to support moving toward a balanced budget but say that they don't want to do it unless they can see a 7-year plan. I always had some skepticism as well about our ability to project out into those outyears.

I am wondering if you could comment on that.

Mr. VEDDER. I didn't bring the data to prove this, but since the Budget Act of 1974 or ever since we started doing these long-term projections, for whatever reasons, those fifth-year projections have been off the mark. Dr. Makin may have more evidence, but certainly within the last decade that has been the case.

Now, we may be off the mark for technical economic reasons, because of the inability of economists and others to make accurate assumptions about the future. That is part of it. But part of it also relates to political will, and it is easy to do things that are palatable in the short run and say, well, we are going to do these painful things 4 years from today because 4 years from today is after the next election. Actually I have a lot of respect for Congress persons, in spite of Representative Stenholm's remark; I used to work for this body. But it is painful to do the hard things now, and you want to put the costs into the future.

So you say over 5 years we are going to save \$100 billion doing something and \$3 billion this year and in the outyears, \$20, \$25 billion. Well, when that pain comes in 3 or 4 years, we back off. The 5-year projections are a way of reducing political pain, and I think that is understandable.

That is utility maximizing behavior, as we say in economics, but I don't think it is good budgeting in the sense that it misrepresents reality somewhat, and I think it adds to the cynicism about the process in Washington and the low public esteem people have toward, not just Congress, but the executive branch as well. Speak-

ing as a citizen, I think that that is bad and I put it a little strongly, I think it is immoral. If a businessman did some of these things, you know, he would be in jail.

Mr. LAZIO. Let me ask Dr. Makin.

Clearly there also are some technical reasons why going out to those outyears makes it a more difficult challenge to project. The Fed has had some history, for example, in overcorrecting programs like Medicare. We have not had a very positive experience in terms of our ability to project costs in the outyears.

Would you agree with that?

Mr. MAKIN. Well, yes and no. First of all, let me just offer a general comment. You need to have some set of baseline assumptions if you are going to do budgeting over a 5-year period, and I think to make believe the future isn't there is probably not productive, and you can forecast probably things on average over 5 years with reasonable certainty. On a year-to-year basis is the hard part.

So I started my comments by suggesting that there has been a cycle of budget forecasts, and we just last year ended a cycle where the vogue was from underestimating budget deficits to overestimating budget deficits, and when the—late in the Bush administration, early in the Clinton administration, you had what were conscious overestimations of the budget deficit, which I took as a signal that they wanted to try to cut the deficit.

Mr. LAZIO. But we have never had that over a 5-year, 6-year, 7-year period of time. Do you know anybody who has projected a deficit to be larger than it is?

Mr. MAKIN. Oh, yes. Over the past—if you looked at the budget deficits and again, somebody here from—you know, will have the numbers at their fingertips, but if you looked at the budget deficits for 1993, 1994, and maybe even 1995, you would find that the projections several years ago were way above the outcome.

Mr. LAZIO. But that is because of policy changes.

Mr. MAKIN. Some policy changes, some differences in the economy, but you had a period in the 1980's when they were ludicrously below the outcome. What I am saying is that the White House—any administration has a tactic unrelated to reality with regard to the budget outlook when they put together the budget document, which is not a document, as you know, that is meant actually to predict what the budget will be. It is a document that is trying to set the agenda by either saying there is a lot of work to do or there isn't very much work to do.

Mr. LAZIO. But if you have no confidence—

Chairman KASICH. You want one more?

Mr. LAZIO. Yes, if I could just finish this. If you have no confidence in those outyear numbers, it makes a sham in terms of public perception of the job that we are trying to do here.

We could say anything in years 6 and 7 to meet our political objectives. But that undermines our ability to do the job in the years we can control—next year, the year after—as well as what Dr. Vedder was talking about, the public perception.

Yield back.

Mr. MAKIN. I think you are being a little too pessimistic. There is good information in these documents, and I think it can be read as a signal of what the administration's tactic is going to be.

You can also look at the economic assumptions and suggest that, you know, on average, they may be close to reality or not close to reality, and there is a table in every budget where you can adjust your budget projection based on a change in the economic forecast.

Chairman KASICH. Mr. Orton.

Mr. ORTON. Thank you, I have one comment, then I want to yield the balance of my time to Mr. Sabo who was on a roll a few minutes ago. I think he has a number of other questions to ask, but I was intrigued, Dr. Makin as you were speaking about balancing the budget and the need to do so.

You indicated that because of cyclical economic changes, that it would be necessary to look at realistically balancing the budget on average over a period of years, like 2 to 3 to 4 fiscal year cycles, thereby not being so constrained in one particular year to have absolute balance every year.

I think you are accurate, but I think that is one area in which our focus and debate on the balanced budget amendment has not analyzed and focused the issues and impact of that requirement for absolute balance each and every year.

And placing a supermajority requirement in both the House and Senate requiring three-fifths majority to increase the debt limit, for instance, places us in a situation in a given year when we do not reach balance because of economic turndowns or downturns.

We then are in a very bad position at having to get a supermajority in order to deal with it. At the end of a fiscal year when we have overestimated revenues that didn't come about because of economic cycles or whatever, it is too late to cut spending. You can't raise revenue. Your only option at that point is to borrow money, and with that, I just hope we deal with that in the other body because we haven't dealt with it here and I yield the balance of my time to Mr. Sabo.

Mr. SABO. And thank you, Mr. Orton.

Dr. Vedder.

Mr. VEDDER. Yes.

Mr. SABO. Which would you prefer, and who is better off and who has the relative least debt, one who has an income of \$10,000 and a debt of \$1,000 or someone who has an income of \$15,000 and a debt of \$1,200?

Mr. VEDDER. I don't even begin to know how to answer that question because I am not sure what you want of me.

Who is better off? Is that the question?

Mr. SABO. Yes.

Mr. VEDDER. Who is better off?

Mr. SABO. Yes. Who has the relatively least debt? Who is better off.

Mr. VEDDER. The person with \$15,000 income has debt that is a smaller proportion of his income, if that is the point you are trying to make.

Mr. SABO. That is right. You seem to ignore that in your analysis of the President's budget. I frankly think we need greater deficit reduction than he has projected, but you are also not dealing with the reality of the debt and deficit as a percentage of Gross Domestic Product.

Mr. VEDDER. You are quite right there in the sense that the proportions do fall in the Clinton budget, but I don't think they fall enough.

Mr. SABO. OK. That is a different issue.

Let me just speak to the question of 5-year budgets being criminal and we should just focus on 1 year. Clearly the first year is important but it sets the stage for following years.

The reality is, we went through 1-year targets with Gramm-Rudman and it led to endless smoke and mirror games being played here. It led to administrations coming in with assumptions of interest rates that were way below reality. It led to games of either benefits or tax cuts going into effect in September, so it had no impact on that year, but it had impact the next year. That 1-year game, and really Congress responded to that in 1990 by setting 5-year caps on discretionary spending which worked, and switching to a 5-year pay-go on changes in taxes and entitlement programs and frankly that has worked very well.

So we still have those variations, but those variations really come from changes in inflation, growth rate, interest rates, things which we do not directly control. So I think members should not underestimate the importance of us projecting for 5 years and 7 years in the budgeting process, 7 years this year because that is the target of the balanced budget amendment, to have some understanding of what we do now and how it projects through a 7-year period, because you can do things that have impact on 1 year, you sell assets, and it has no impact on your budget next year, except it lowers your deficit this year.

So I think keeping—particularly this year, a 7-year projection on what happens with spending and on tax changes is incredibly important, and I think to denigrate that you do a great disservice, both for our ability to deal with budget issues, and for the public to understand the ramifications of what we are doing and what we are saying we are going to do over a 7-year period.

Mr. VEDDER. If I may comment on that?

Mr. SABO. Yes.

Mr. VEDDER. I agree in part with what you say. I don't want to be misinterpreted as saying I don't think we should look at the long run. Indeed I think, if anything, the problem in Washington is that we tend to look at the short run more than the long run. We are ignoring the Social Security problem, which is a long-run thing, because it poses short-run political costs.

Mr. SHAYS [presiding]. If you don't mind, if we could get to Mr. Smith and maybe we could incorporate that in your comments.

Mr. Smith, you have the floor.

Mr. SMITH OF MICHIGAN. Thank you, Mr. Chairman.

Let's follow up on Social Security maybe a little bit. Have you looked at where we are going to be down the road? Cato is suggesting that by 1999, the first beginning of the insolvency occurs and sometime during the year, we are going to have to redeem some of those bonds.

Have you looked at the progression of the insolvency of the Social Security funds?

Mr. VEDDER. I just came from a conference across the street on Social Security, and it is interesting, 10 or 15 years ago the inter-

mediate assumption of the Social Security trustees was that the insolvency date on the basic retirement system would come in the year 2065, and through a variety of changing assumptions over time, it has become increasingly pessimistic. The current date is 2029. I am not talking now about Medicare. I am talking about the basic retirement pension system.

And so the adjustments that have occurred in the assumptions over time have been in the direction of making the day of reckoning come earlier rather than later, and the trust fund as it is defined will peak in around 2020 is what they say now, and then rapidly deplete in that decade that follows.

I think that the Social Security problem is growing rapidly as an issue and needs to be addressed. And with respect to Medicare, the problem is even more serious, and the Cato numbers I think are roughly right.

Mr. SMITH OF MICHIGAN. But when you come up with that 2020, you are assuming there is going to be a payback of everything that has been borrowed.

Mr. VEDDER. That assumes current benefit levels, current legislative levels. Obviously these things will all change if policy changes, and I am just saying if we don't do anything, there is a significant problem that develops very quickly in the 21st century, if not before in the case of Medicare.

Mr. SMITH OF MICHIGAN. Mr. Makin.

Mr. MAKIN. I always take a deep breath before I talk about Social Security because it has been going on for so long.

Mr. SMITH OF MICHIGAN. We can talk about Chile.

Mr. MAKIN. No, this is an important issue.

Mr. SMITH OF MICHIGAN. No, Chile as a substitute for Social Security: 80 percent of the Chileans now select a privatized system.

Mr. MAKIN. That is how I usually end a discussion on Social Security is to say, if it is such a great system, make it voluntary, but that does suggest a perspective on the system that it is generationally unfair. But again, the adjustment that is needed is so simple, but I agree, it is politically difficult, but not that difficult.

If you say to Social Security beneficiaries that the increase in your benefits is going to be two-thirds of CPI instead of full—2 percent a year instead of 3 percent a year, what do you think, you are all going to be voted out of office? I don't think so. And over the long run, that will essentially deal with the problem.

Mr. SMITH OF MICHIGAN. Well, actually, I mean, I introduced legislation that developed a new CPI for specifically that purpose.

Mr. MAKIN. I am preaching to the choir here.

Mr. SMITH OF MICHIGAN. Let me just expand on taxes. I also introduced the neutral cost recovery bill that eventually became part of the Contract With America and now is in serious problems because of the claim of the outyear costs. It seems to me to penalize capital formation is sort of depriving this country of increased economic activity.

Give me your thoughts on where we go on taxes in this country to encourage economic growth.

Mr. VEDDER. Well, we don't—that is a broad question and one that can't be answered in a few words, but clearly we need to stimulate capital formation.

The tax system is punitive of that in a whole variety of ways. Capital gains is one that comes quickly to mind, but others you have mentioned, and it is clear that long-term economic growth would be aided by moving to a rationalization, our system of capital taxation, and mainly by reducing our taxation of capital.

Mr. MAKIN. Again, I totally agree with that, and what is interesting is that it—you know, 20 years ago, the Treasury undertook to design a tax system that would minimize the cost of raising revenue, published it in the Blueprint on Tax Reform from the Office of Tax Analysis.

Mr. SMITH OF MICHIGAN. This is—

Mr. MAKIN. This is Dave Bradford's book, and so the blueprint is there, and I would strongly urge people to take a serious look at that.

Mr. SMITH OF MICHIGAN. Mr. Chairman, I don't have time for another question, but if they care to get to it in the future, it would be where would you cut government spending.

Thank you.

Mr. SHAYS. We don't have that many members left and it would be my intention to go back if you wanted to stay.

Mr. Browder, you have the floor.

Mr. BROWDER. Thank you, Mr. Chairman.

I only have one question. Gentlemen, to return to the question of a tax cut, leading off the plan with a tax cut versus deficit reduction, do you know—I don't want to beat this horse to death—but do you know of any economist who supports such an idea?

Mr. MAKIN. Well, let me just say, I want to repeat what I said earlier. That is, a tax cut that involves some rationalization of the tax system, has lower marginal rates, I think, would be net beneficially, even if it raised the budget deficit by \$50 billion. So here is one.

Mr. VEDDER. And here is two. I agree exactly with what he said.

Mr. BROWDER. Let's say a tax cut has been proposed in the current political discussion, either the President's proposed tax cut or the notion that has been kicked around that the Republicans are working on.

Mr. MAKIN. I would much prefer—I will be very specific here. I would much prefer in terms of economic performance to bypass the middle class tax cut and use the revenue to help rationalize the tax system. That is, cut tax rates or reduce the taxation of capital, and cut the double taxation of savings, and I think that would be beneficial.

Mr. VEDDER. I agree, and I would say to both Republican and Democratic plans that talk about middle class tax cuts, they are not dealing with the economic efficiency issues that money would be much better used in dealing with.

Mr. BROWDER. OK, Mr. Chairman. I am going to try to wrap up by returning to my question.

Do you know of any economists who support the middle class tax cut that has been proposed, support that idea as we try to lower the deficit?

Mr. MAKIN. No.

Mr. VEDDER. I don't know of any, although I haven't surveyed many either.

Mr. BROWDER. Thank you.

Mr. Olver has asked—Mr. Chairman, do I have any time to yield?

Mr. SHAYS. You do have time.

Mr. BROWDER. I yield to Mr. Olver, who I think would like to pursue that.

Mr. OLVER. Thank you very much for yielding that remainder of your time.

I would like to go back to something that Dr. Vedder had said, that best taxes were low tax rates on consumption. I remember, at least from my experience in my State, Massachusetts, that we had very clear data that the leakage on sales taxes, which would be a fairly low tax rate depending upon how broad that is, on consumption were something like one-third.

Now, the—and I think that is—while that may be extreme, it is not outlandish among—leakage rates on that kind of a sales tax.

Now, the leakage rate on income taxation, while it has been going up, it is still only at the level of 15-percent. It is abated by a 15-percent level or something like that of what is owed, not being paid in, and it is almost unabateable by people who earn wages and salaries where their taxes are withheld. So it gets abated for people who are not in those kinds of categories.

Would you clarify what you mean then, knowing that we have much higher leakages on consumption taxes, at least in my experience, where we should be going to do what you want to do?

Mr. VEDDER. What I was referring to, if you want to look at the States, since you mentioned Massachusetts, I have done some research looking at State data. A State that imposes a sales tax equal to 1 percent of that State's personal income, equal to say \$1 billion, will probably have less adverse effects on economic growth than if that State were to put an income tax that raises the comparable amount of money.

Sales taxes are taxes that are not directly on production, on productive activity. Indeed they are on consumption. In fact they may marginally favor savings, which is good. So when I run statistical correlations of the relationship between sales taxes and economic growth using the 50 States, I find virtually no relationship, but I sure do when I run income taxes. I find a very strong negative relationship.

As to the leakage, I am not sure what you mean, a large part of the consumption base is exempt from taxation, and that is the major thing.

Mr. MAKIN. I think I could address the leakage issue in Massachusetts. I grew up there and the answer is New Hampshire—

Mr. SHAYS. If we could—

Mr. MAKIN [continuing]. Where there is no sales tax.

Mr. OLVER. Since I grew up there, I know the error in what you have just said. When I use the word leakage, maybe I should say what is meant, and that is simply the amount of consumption that is paid in Massachusetts that is not then paid over to the State—

Mr. SHAYS. If I could interrupt.

Mr. OLVER [continuing]. Paid by consumers doing the consumption, yes, there was always a cross-border effect, and that occurs when you have different rates across the border.

Chairman KASICH. We do have time to come back. But I would like to keep on schedule.

Mr. Radanovich, you have the floor.

Mr. RADANOVICH. Thank you. Following up on some of the questions about tax cuts and the effect that they have, I mean, it seems—let me give you my basic assumptions and you tell me where I am wrong, if you think I am. It would seem to me if you relieve the tax burden on individuals, they will be more productive and that will be a net increase under the current tax system into the Treasury.

Can you tell me where I am wrong here?

Mr. MAKIN. Again, I don't have a strong—don't have a strong disagreement with you. If you simply—again, it is—if you simply say to people, we are going to cut your taxes if you have a child, boom, there are a lot of things that happen. You may have more children. Ultimately that may be better for growth.

I think I agree with you, but I just want to go back to the point that the design of the tax system is so much more important than I think people realize, because look at the tax system. It is so poorly designed, that you want a tax system that has a minimum effect on human behavior. You have to decide how much revenue you want to raise.

I look at the last 20 years. I see that 18.5 percent of GDP is about where we want to be. If you make a choice that you want to go down or up, up seems to be impossible politically. Down would be easier politically, and that means you have to make some decisions about spending and the type of tax cuts you make. But, yes, there is going to be a change in human behavior if you change the tax system, most of it beneficial.

Mr. RADANOVICH. My second question is—maybe I could ask both of you gentlemen, if you had a choice between achieving a balanced budget or downsizing Federal Government, which would be better?

Mr. MAKIN. No hesitation, downsizing Federal Government.

Mr. VEDDER. Absolutely.

Mr. RADANOVICH. All right, thanks.

Mr. SHAYS. Is the gentleman done?

Mr. RADANOVICH. Yes.

Mr. SHAYS. Thank you.

Ms. Meek.

Mrs. MEEK. Thank you.

The question is for Dr. Vedder. It appears that in a lot of your writings you have been very critical of the raising of the minimum wage.

Would you explain to me why you are so vehement about that?

Mr. VEDDER. Well, I wish I had brought my minimum wage graphs with me. The basic reason is, I believe increasing the minimum wages will cost jobs, will lower output and inputs used in production, will lead to lower incomes for the society as a whole, and I think that it will disadvantage some people who can least afford it.

There is a very strong correlation between the real minimum wage, the minimum wage corrected for inflation, and the unemployment rate over the last 10 or 15 years. It is striking, particularly among minorities and among teenagers.

Mrs. MEEK. If I may go a little bit further with that.

Mr. VEDDER. Sure.

Mrs. MEEK. The Burger Kings and the McDonald's of the world hire a lot of people at a minimum wage. What effect, if any, will your approach entry-level workers.

Mr. VEDDER. There are some people who would benefit, no question about it, from increasing the minimum wage. They will be making more money, and that is for them very good. It is important to keep in mind that you mentioned the Burger Kings. One-third or a little more than a third of those who receive minimum wage or in the range that are under consideration now are teenagers. Another third are adults who are second or third earners in the family that are not the primary earners. About a third are breadwinners who bring in that as their main income.

It seems to me that group is the people we ought to target if we are trying to use this as an antipoverty device, a helping hand to lower-income people. I just don't think the minimum wage is the most efficient way of doing it. I would rather give money to people in other ways that are less interfering with markets, a market mechanism. That is my main quarrel.

Mr. OLVER. Would the lady yield?

Mrs. MEEK. Yes, I will yield.

Mr. SHAYS. Mr. Olver, you have the floor. You are making out like a bandit here.

Mr. OLVER. I am trying.

Dr. Vedder, to follow up on the minimum wage argument that you have just espoused, the millions of people who are on minimum wage, each under a minimum wage increase, which is in fact the exact same minimum wage increase that was put in 5 years ago so there hasn't been one in 5 years, was 45 cents 5 years ago in 1990 and then another 45 cents in 1991.

Mr. VEDDER. Yes.

Mr. OLVER. That would have ended up putting somewhere around \$1,700 additional in the hands of each full-time minimum wage worker.

Now, I don't know precisely the number of minimum wage persons, full-time equivalent minimum wage persons, but that represents some number of billions of dollars, \$5, \$10, \$15 billion, which is almost all going to be consumed because these are workers who are at the very lowest of income, and I think we would probably agree virtually everything there is going to go into consumption, which may be a problem for you economically. But it will be consumed and therefore create jobs.

Do the analyses take into account the number of jobs that were created by the circulation of that additional \$5 or \$10 billion a year in the economy?

Mr. VEDDER. My analysis, to answer your question, of the 1990 and 1991 wage increases, which is coming out next week in a study for the Institute for the National Center of Policy Analysis, is that there was a ripple effect of the minimum wage increase.

The minimum wage doesn't affect merely those right at the minimum, but those that are making a little bit above usually get some increase to get some differential. While this does provide some added income for some people, and very welcome added income, I don't deny, it did raise overall labor costs in 1990 and 1991, unit labor costs, real wages.

There is a shock in the second quarter of 1990. The annual rate of wage increase was very substantial, and I don't think it is entirely coincidental that a recession began the next quarter. I think minimum wage increases of a large magnitude can give wage shocks that can lead to a recession.

Mr. MAKIN. May I comment on that?

Mr. SABO. Would the gentlelady yield?

Mrs. MEEK. I yield, yes.

Mr. SABO. I would only observe in 1986, the value of the minimum wage was \$6.49 in today's dollar. The unemployment rate was 3.6 percent.

Mr. SHAYS. The time is up here. If we could move along.

Mr. Inglis—it is my intention to go to Mr. Inglis, then Mr. Largent you will have the floor. Mr. Olver, you will have the floor for your own time if you want after Mr. Largent.

Mr. Inglis, you have the floor.

Mr. INGLIS. Thank you, Mr. Chairman.

Doctor, I have a question for you. It sort of gets to the micro level rather than the macro level. In particular it may be helpful to study education as one of those areas since you know about that very well.

It is very interesting right now what is happening, certainly in my office, and I assume in most everyone else's office, and that is, I can't tell you how many people visit me and tell me that their program is about 1 percent of the Federal budget, and I am getting to the point of saying, yes, and there are nine others out in the hallway. It all adds up to 100 percent.

It really is a fascinating thing that everyone comes and says, my program is about 1 percent of the Federal budget and there literally are nine others out in the hallway, particularly if you break down Medicare into subunits and then you can really get it down to where that particular part of Medicare is 1 percent, let's say.

So what I am assuming, and I would like your comment on this as an economist, is that if we do two things simultaneously, reduce the size and scope of government, reduce its benefits to recipients, while at the same time reducing the tax burden or regulatory burden or whatever effects, negative effects that the government has on private wealthmaking activity, that if those go down at approximately the same rate, that the net effect is positive on the person who lost the benefits. And I realize it is a rocky road. If they fall at differing rates, then it is a particularly rocky road.

What I would like to do is see if you agree with that observation and apply it to education, which is a hot topic. You know, if we go cutting aid to education or student loan programs, the question is, is there some corresponding benefit that may accrue to those families while they lose some benefits on the one hand, that they pick up others, particularly if we went to the kind of tax system that you are talking about? Am I dreaming or is that the case? Is

there—if those go down commensurately, is there a net benefit to the individual?

Mr. VEDDER. Well, we are all participating in various special interests. We all are in the educational system, we are in the Social Security system, and any time you cut those special benefits that we receive because of some status that we have in our society, you are hurting us.

But at the same time, we are general citizens that benefit from the overall reduction, and I think you are basically right that overall, for most people, the general benefit gains from cutting government will exceed the special interest losses, if I may put it in those terms, but there will be exceptions.

There will be winners and there will be losers, but my sense is there will be more winners than losers, and besides, the economy as a whole will get bigger. The pie will get bigger. You are dividing up the pie differently, but the pie will get bigger if you do it in a rational fashion.

Mr. INGLIS. Let me ask you this: Will your students be winners or will they be losers?

Mr. VEDDER. If you cut education, hey, I can speak unequivocally to that. They won't be affected at all, much. Eric Hanushek of the University of Rochester has surveyed the literature and shown there are 150 studies of primary and secondary education that show virtually no relationship between expenditures and performance, and at the college level, if you cut the amount my university gets by 3 percent, I will probably get a smaller raise.

Yes, it will hurt me personally, but I will do the same thing I was doing roughly as before, although there is a labor supply effect, I suppose. It is very small, and I don't think you are going to enormously hurt the youth of the United States, and I speak as an educator who has been teaching for 30 years.

Mr. INGLIS. Dr. Makin, do you have any comments on that?

Mr. MAKIN. Only a couple general ones.

One, I don't think there is much relationship beyond a certain bedrock necessary amount of spending on education between outlays and educational—between outlays and performance, and two, I think it is very important to look at how spending on—which comes under the heading "education" is allocated.

A lot of it doesn't really go for education. I mean, if it goes to a university budget, there are lots of things that universities can do with money that have nothing to do with the performance of students.

So I mean like the health care system, I would be all for a rationalization of the process with which we deliver education and put more emphasis at the primary and secondary level on basic skills, which are important, but beyond that, I am not sure that it is appropriate for the public sector to be undertaking that.

Mr. INGLIS. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

If the gentleman wants to come back, there are a few of us. We can go back to it.

Mr. LARGENT, you have the floor.

Mr. LARGENT. Dr. Vedder, I was reading in the appendix of your book, this particular paragraph says:

Within the context of the modified neoclassical view of the world, the critical magnitude in explaining variations in unemployment is the proportion of any change in the money wage rate that may be considered to be exogenous and not determined by the other variables that affect the real wage rate.

I read that paragraph simply to say that we are going to have a communication problem.

Mr. VEDDER. That is why it is in the appendix.

Mr. LARGENT. I was reading your testimony here and one of the things that caught my attention was as you were critiquing the President's budget, you talked about the distortion of facts, particularly where the President claimed an \$81 billion deficit reduction, when, in fact, as you looked at the total deficits for years 1995 through year 2000, there was an actual accumulation of \$31 billion, and to be honest with you, that has been one of my concerns as I have gotten to know more and more about how the process works here in Washington, DC, and—the budget process and the budget numbers you can never get them all to match up.

There are several different budget proposals that are proposed by this Chamber and the Senate Chamber and the President does a different one. The numbers never look the same, even at the bottom line. They never add up.

And I am wondering from your perspective, if you had the opportunity, how could we build more accountability in the budget process by making it more streamlined and efficient, and I know this is a big question, but would there be some targeted areas that you as an economist would say, if there were just three things that I could do to make the budget more explainable, more understandable so more than six people in this country understand it, what would you do?

Mr. VEDDER. That is a big question, and there is a lot of things.

I think the 1974 Budget Act had good intentions, but some things have kind of gone astray. Actually, our budget deficit situation has worsened since then. Our average unemployment rate is higher since then. I wouldn't blame it all on the budget changes, but I don't think they have worked the way that they should. This is not Clinton-bashing, or it would be Bush-bashing if I were here 3 years ago.

I do think that the public has heard for the last 15 or 20 years Presidents of the United States and Members of Congress say we are cutting the deficit here and we are doing this, and it doesn't seem to get any smaller.

Now, it is getting a little smaller as a percentage of GNP, but it doesn't seem that much progress is here, and I think it is hurting our credibility. So we ought to use actual numbers in our budgeting. We shouldn't use some sort of mythical baseline calculation that someone has done.

Let's assume current expenditures continue. We should take last year's or this year's actual dollars spent and compare it with next year's actual dollars spent or 2 years ahead, 3 years ahead, whatever, if you want to do multiple-year budgeting, but we should use actual dollars rather than some sort of hypothetical dollars, and I think that that adds a little bit of public credibility to the process as well.

I think that sometimes on some issues that there hasn't been enough dynamic consideration of some things that go on in the economy as a whole, such as in the capital gains area, but time doesn't really permit a fuller answer.

Mr. Makin is—Dr. Makin is the expert on this.

Mr. MAKIN. Thanks a lot.

You know, in response to your question, Congressman, I don't think the American—and you probably have spoken to your constituents and, as I speak, I have gone around the country and talked about the budget, I don't think people are very interested, and I don't blame them.

I mean, I think they would like to get the budget approximately balanced and they figure that is your job. So I think what we should avoid is what went on in the late 1980's to say, if we don't balance the budget in 3 years, the world is going to come to an end, because it is not.

There will be things that will happen that probably aren't as good as other things, but I think that to overdo the discussion of the budget with individual citizens and taxpayers may be asking too much of them, but I think that most survey data suggests pretty much where they want you to go, and I think most people would say, you are going to be better at figuring out how to do—handle the details than the general public is, but people would like a budget that is approximately balanced over time.

Again, I look at the numbers. People don't want to pay much more than 18.5 percent on average of GDP in taxes. So if spending is 3 percent above that, then over some reasonable period of time, spending should probably come down.

Mr. LARGENT. Thank you.

Mr. SHAYS. Mr. Olver, you have your own time to use as you choose, so you can yield to someone else, or you can use it for yourself.

Mr. OLVER. Mr. Chairman, I am extremely grateful.

Mr. SHAYS. Can you use the mike, please?

Mr. OLVER. I don't know how I managed to get this chair. It is most inconvenient.

Dr. Makin, I would like to explore very quickly, because I really have a number of things I would like to do in 5 minutes, your description of Japan and health care. Japan, aging more rapidly, life expectancy rising more rapidly, 7 percent Gross Domestic Product spent on health care, and yet they obviously provide good health.

Could you give me a recipe, three or four things that we should do to emulate Japan, even if we accept that we might not try to get down to 7 percent of Gross Domestic Product, but stay at 14 percent, which is roughly where we are right now. What were the three one sentence sort of things we need to do?

Mr. MAKIN. And some of them you may not want to do, but anyway—

Mr. OLVER. Obviously.

Mr. MAKIN. One is to rationalize the system, that is to say, you know, are we going to have cosmetic surgery on demand for anybody? Are we going to take age into consideration when we look at all procedures? Are we going to basically have medical personnel whose job is to try to make some judgments about when expensive

surgery is appropriate and when it isn't, and that would deal with the issue of—a very high portion of outlays in some of the programs for the elderly that are spent on people during the last 6 months of life. Those are difficult moral issues, but if they are not addressed, health care costs won't come down.

Second, some investment in information about good health. Basic information, especially important to be provided to people who might not otherwise have access to it. Good eating habits. Very, very basic things in primary and secondary schools, some introduction of the idea of exercise.

Mr. OLVER. Education essentially, and communication.

Mr. MAKIN. Yes. And finally, the delivery system in Japan has in it an implicit tax. You want to see a doctor in Japan, you basically go into a big room and wait, and so the doctor is not available on immediate demand and you may not see a doctor. If you have something that is not that serious, you may see a nurse.

Mr. OLVER. You could put both—one and three, rationalize the system as sort of a—both of them rationing aspects. The other one is development of better public health essentially, better education and so forth?

Mr. MAKIN. Right.

Mr. OLVER. OK, thank you. My other question, I notice, Dr. Makin again, you have said several times 18.5 percent. That should be our expenditures. Is that it roughly?

Mr. MAKIN. I have looked at revenues of the GDP over the last 20 years. That was about the average.

Mr. OLVER. 18.5 is the average over the last 20 years, so I was wondering if that was where you were getting at.

Mr. OLVER. Let me talk about a list of Federal debt data. At the end of the Carter years, the Federal debt was \$194 billion and the percentage of Gross Domestic Product was exactly a third. It had been going down throughout the years of the 1970's, slightly, been going down slightly, and I don't want to get back into what it had been doing earlier because it goes up and goes down, goes down dramatically after the Second World War.

Then from the period from 1982 through 1983, the Reagan and Bush budgets, back 12 budgets, it went up every year, every single one of these years from the year before and ends up at 69 percent of Gross Domestic Product.

The budgets that have come through since that time and the projections we have seen thus far leave it at about that 69, 70 percent. Now, I wonder, I would like each of you to characterize what you think about that period of time, that 12 years when the percentage debt of Gross Domestic Product went up every single year and more than doubled during that time when we had Presidents Reagan and Bush and the Members of this Congress passed every single one of those budgets with almost unanimous votes by the Republican party and to the great embarrassment, I think, of my party, with too many votes from my party as well.

Mr. MAKIN. Well, let me first start by excusing the Congress from a lot of what happened in the 1980's. It had largely to do with the fact that entitlements had been indexed to inflation in 1975 in the hope that the rapid discretionary increases in outlays on entitlements would cease because people thought, well, inflation is

about 3 percent a year and we could bring these very rapid increases in entitlements down to that level.

Well, unfortunately at that time inflation began to rise, peaking out at around 14 percent a year, and so you had, if you break down the outlay numbers in the 1980's, you will see that the extraordinary growth was in outlays on entitlements, especially Social Security, but not on defense. I mean, defense went up, but it went up less than it had historically and the entitlements which essentially were not controlled by the Congress, it was legislated.

It said if inflation was 14 percent, Social Security benefits go up by 14 percent. So if you take half of the outlays and you index them to inflation and inflation accelerates, you are going to have an explosion of outlays, which, again, shows why you shouldn't take Social Security off budget because it shows up in the national debt, and it did.

In 19—so this process was essentially driven by the legislation, by the fact that you had indexed entitlements, and in 1990, the much maligned Budget Act of 1990 did impose some discipline on the budget process and has contributed, I think, to slowing down the growth of outlays and to stabilizing the debt to GDP ratio.

Mr. SHAYS. Let me just explain the intention of the Chair.

Mr. Bass has not gone through the first round. I haven't either. I am going to wait until the end. It is my intention to yield 5 minutes to any member who wants to speak again. I would love to know, Mr. Miller, would you like to, and Mr. Smith, you have indicated, Mr. Sabo as well, Mr. Inglis, do you have intention to ask any other questions? Mr. Largent? OK.

We are going to get you out by 15 after, maybe earlier, but we will definitely—we will recess, because at 2 o'clock we will be coming back for the chair of economic advisors.

So Mr. Bass, you have the floor for 5 minutes.

Mr. BASS. Thank you, Mr. Chairman. Thank you two gentlemen for being here today.

I am sorry your tags are so small. I am nearsighted. I am too vain to wear glasses so I can't read them, but I was interested in your comment that deficits are implicit taxes and the budget as proposed by the administration contains a \$31 billion deficit increase over the period would in essence be an implicit tax increase.

I am not an economist, and I am changing the subject here slightly, but I am wondering, there was suggestion about Social Security and the fact that it was not on the table for this—for discussion purposes in balancing the budget, and that the bond purchasers of T bills can't tell the difference between spending on Social Security and spending on defense.

Social Security, from what I understand, is showing a significant surplus and will the next few years, over the next few years. What—how does that set with the fact—are we really—is Social Security really costing the system any money at this point?

Mr. MAKIN. Yes, it is costing. I don't know the numbers. It is costing. Outlays are somewhere between \$400 and \$500 billion a year. Of course the Social Security system has a current surplus. I mean, it is driven entirely by demographics. If you anticipate the requirement of the baby boomers, you have got to run a surplus now because if you—let's suppose you ran Social Security in bal-

ance all the time, and then you got into the baby boom generation and you suddenly had a huge increase in the number of retirees, and you had to fund it out of current revenues.

The implicit payroll—the payroll tax would go up to something like 45 or 50 percent in a year. That is tax on hiring labor. It would be a disaster, so the reason for the surplus is to anticipate that problem and to try to avoid it.

Mr. BASS. I have no further questions, Mr. Chairman.

Mr. SHAYS. Mr. Miller, you have the floor, and then I will go to Mr. Sabo, and then I will go to you, Mr. Smith.

Mr. MILLER. As I stated earlier, I am disappointed. I think you sensed that a lot of the other members on the other side are disappointed in the fact that the administration's budget is a political document, unfortunately.

It does not really seriously address the deficit issue and is accepting the deficit going off. As you know, Ms. Tyson will be with us this afternoon.

Two questions. I am going to ask them together and if you would respond. The first is, one of the things they are claiming is a great success is that the deficit as a percent of GDP is going down, and that is what they are saying. They are stressing that fact rather than the \$200 billion number going off into the future. Address the significance of that.

The other question I have is, I want to quote from her, I guess it is OK to quote from her, though she hasn't given this testimony. She will give it this afternoon. But in her testimony she says, "Over the long run, deficit reduction makes room for more private investment." I think we can assume we agree with that. Then it says, "But in the short run, it depresses aggregate demand and can even depress private investment." And that is the argument I am assuming, to continue having deficit spending is that in the short run it depresses aggregate demand and it can even depress private investment.

So would you answer those two questions, please?

Mr. MAKIN. OK, the second question first. You know, sure, if you try and cut the budget deficit by \$200 billion in 1 year, there would be a short-run slowdown in activity, but I would argue it would probably be a long-run increase, but that is a straight Keynesian argument, that if you take \$200 billion of demand out of the economy in a year, it will slow the economy. But let's quantify it. I mean, \$200 billion is 3 percentage points of GDP. And even if you did that, I would estimate that GDP growth might drop by a percentage point for a single year, but thereafter would increase, so I am not sure I would grant her that point.

The first issue is arithmetic. If deficits stay at \$200 billion a year and GDP grows, then the ratio goes down. Yes, that is right. Would it be better that the deficit was zero? My purpose in coming here today is basically to suggest, yes, it would be, provided it is coupled with some rationalization of the tax system.

So, I mean I can't argue with the arithmetic. But that is not the issue. The issue is what is the best policy and the best policy in my view would be to keep to scale the Federal Government to a level that is about consistent with the revenues it seems possible to raise and then turn to reducing the cost of raising the revenues,

and that is—that point again, I want to reemphasize it and I put in the example of how inefficient a tax system can be by saying, suppose you try to raise all taxes with toll booths. I mean, nobody would be able to move. That is the worst case. An income tax is relatively inefficient. It imposes a lot of costs. Rationalization of the way you collect the taxes is important.

Mr. VEDDER. I agree, and picking up on the point about the deficit reduction. Realistically, I don't think anyone would be talking more than say \$40 or \$50 billion a year over maybe a four or 5-year period.

You are talking a fraction of 1 percent of the GDP. I don't believe that reductions in aggregate demand, particularly ones that people expect or anticipate have much impact at all, but even if one accepted the premise that they do, we are talking about small incremental changes, not major changes.

Mr. LARGENT. Will the gentleman yield?

Mr. MILLER. Yes.

Mr. LARGENT. In terms of rationalization of our tax policy, and maybe you addressed this earlier and I wasn't here. What is your perspective on a flat tax?

Mr. MAKIN. There are lots of different flat taxes. Let me just say you seem to be an avid reader and I would urge you to get a copy of the Blueprint for Tax Reform that was worked out in 1976. It is a—I would say a kind of a flat tax. Flat tax refers to a category of tax systems where you essentially keep marginal tax rates low and constant in order to avoid disincentives to more work and effort.

In general, it is one of the ways to rationalize the tax system. I mean, the most efficient tax is something that is probably politically very difficult. It is just a poll tax. Government is too big to be funded by a poll tax, so the kind of modified version of a tax that minimizes the effect on human behavior is a flat tax, and then the question comes up, do you want to levy it on consumption or do you want to levy it on income, and the idea is to levy it on consumption so you don't tax savings twice, which is what we do now.

Mr. SHAYS. Mr. Sabo is going to have the floor, and I am intrigued that he is here because he never takes economists very seriously, so it has been—

Mr. VEDDER. Wise man.

Mr. SHAYS. Mr. Sabo, you have the floor.

Mr. SABO. In your judgment, did Congress make a mistake when it passed Social Security and Medicare, yes or no?

Mr. MAKIN. I am sorry. I didn't understand the question.

Mr. SABO. Did Congress make a mistake when it passed Social Security and Medicare?

Mr. MAKIN. In my judgment, yes.

Mr. VEDDER. Yes, I agree.

Mr. MAKIN. You know—

Mr. SABO. Let me go on.

Mr. MAKIN. Well, I mean—

Mr. SABO. Did Congress make a mistake when it passed the interstate highway system?

Mr. SHAYS. Would the gentleman yield just 1 second so we understand what you mean by mistake?

Mistake in passing it or mistake in how we did Medicare and Medicaid? I just want to know if you think generally we shouldn't have passed the programs or we just made mistakes in doing the programs.

Mr. MAKIN. The Social Security system is a government retirement program.

Mr. SABO. You prefer we not have one?

Mr. MAKIN. I think the private sector could handle it much better.

Mr. VEDDER. I agree.

Mr. SABO. What about the interstate highway system? Does that contribute to the national productivity?

Mr. MAKIN. Roads I think are a legitimate area for the government to be in.

Mr. VEDDER. I agree.

Mr. SABO. Airports?

Mr. MAKIN. More questionable, but, you know, either the government or the private sector can run airports if you look at experience around the world.

Mr. SABO. Progressive income tax is wrong?

Mr. MAKIN. I don't think they achieve what they set out to do, so I think it is a waste of effort.

Mr. SABO. No deductions?

Mr. MAKIN. Again, no deductions is a way to minimize.

Mr. SABO. Charitable deductions?

Mr. MAKIN. Right, no deductions.

Mr. SABO. I just have to say that I listened to your analysis of State governments and what happened, and I spent many years in State government, and I have to tell you I fundamentally agree with you—disagree with you. I made a big slip there.

You know, I come from a State, Minnesota, that has relatively high taxes, we have a progressive income tax. I think we have quality public services. We have had growth over recent years that leads most of the Midwest. Clearly the level of public service is a reason we have that growth. It is not because of our mild winters. While we always have some quarrel over the level of public service, I find that when you visit with people in the business community, they may have trouble at first recruiting because of relatively high taxes, but once people are there, they are also very reluctant to leave. They stay because of an educational system that I think is one of the best in the country, a quality health care system, and a good, well-trained labor force, both at the labor level and at the management level. We also have recreational facilities that are available to the public, unlike this part of the country where you have to belong to a private club, we have an ample supply of public golf courses, lakes with public access, extensive park systems, all of which goes into building quality of life. And frankly, I think we run government efficiently and well.

The days I was involved I used to be attacked by Republicans because we ran surpluses. But clearly, there is a relationship, and I think understood by our citizens, that the level and quality of public services that they pay for has had a significant impact on our State maintaining a strong, high-tech economic base. I don't think

many Minnesotans would switch to being one of the low-tax States of the country and adopting their level of public services.

Mr. MAKIN. Is that—are we able to comment on that?

Mr. SHAYS. Yes, you are. You had a long question.

Mr. MAKIN. Congressman, I also lived in the Midwest for awhile in Wisconsin and I think there is nothing wrong with people being able to select a State where the level and quality of public services may be higher or lower.

I think what we are seeing at a national level, which is what we are addressing here, is that the quality of services relative to the cost is too high in some cases. So the fact that Minnesota is comfortable or not comfortable, you know better than I, with the given level of public services does not suggest that the level of public services offered by the Federal Government and the cost of those services is appropriate.

Mr. SABO. Just a quick response. I was hearing assertions that if you had high level of public services and quality public services, that automatically led to low growth.

Mr. MAKIN. I did not make that assertion, Congressman.

Mr. VEDDER. I did and I was in St. Paul last week, and we don't have time here, but I can back that up with respect to the recent Minnesota experience relative to that of its neighbors, Wisconsin, Iowa, North Dakota, and South Dakota.

Mr. SHAYS. Mr. Smith, you have waited awhile for a second chance.

Mr. SMITH OF MICHIGAN. Just following that up, Dr. Vedder, your experience working with State governments and the effects of high tax rates.

Mr. VEDDER. Well, my experience, which started when I was in Washington working with the Joint Economic Committee of Congress, is looking at the relationship between State and local taxes and the rate of economic change, and that may be employment change, it may be income change. It could be migration of people.

There are various ways of measuring economic change, and I started out skeptically thinking it didn't have much impact. State and local taxes are only, what, 10 percent or so of total income, but at the margin it seems that they make quite a bit of difference. States that levy higher taxes or increase their taxes over time, generally, other things equal, had somewhat lower rates of growth and it does make a difference, as Dr. Makin indicated, as to the type of tax and the way you deliver services, is going to Representative Sabo's point.

All these things make a difference, but if you were to generalize what is the relationship between taxes and economic growth, the relationship, the State data show and also the international data show of data, that there is in fact a negative relationship between taxes and the rate of economic growth.

Mr. SMITH OF MICHIGAN. I happen to be from Michigan. Of course we have got a value-added tax in Michigan. As chairman of the Senate Finance Committee, I started developing expenses as a reasonable goal to go forward. It seems to me it is more reasonable actually at the Federal level than it is at the State.

So it is frustrating not to encourage businesses to do the kind of things they do if they react to taxes and you are saying yes, they do.

Dr. Makin, any comments?

Mr. MAKIN. What?

Mr. SMITH OF MICHIGAN. Well, my big question is, what is the proper—as economists, as citizens, what do you feel is the proper role of Federal Government, where would you cut Federal spending?

Mr. MAKIN. Well, here again, we are not talking about cutting Federal spending. We are talking about adjusting the rate of growth of Federal spending, and in my testimony, I tried to suggest that if you look at the composition of Federal spending, you are going to have to look at some of the areas that have so far been not available to Congress to address, and that is the so-called entitlements.

I mean, those have not been addressed by Congress in a very long time. You are not allowed to address them. Yet you write the laws so you can change the laws, and all I am suggesting is that there is so much there and that, especially in the area of medical care, there are reasons to expect that costs can be cut, that a moderate reduction in the rate of growth will balance the budget and if that is what you want to do, do it.

Mr. SMITH OF MICHIGAN. But still, and sometimes targeting is one way to reduce the growth and targeting such things as the total elimination of some of the things that government has found itself getting into.

I mean, we are looking at the possibility of closing the Department of Education, the Department of Commerce, maybe tremendously downsizing HUD, the involvement of government in the banking business, et cetera. So that is what I was looking for to reduce—slow down the growth.

Is there any suggestions of an improper role of government that we might especially look at?

Mr. VEDDER. You made a point there that is valid. We don't want to just merely do a 1 or 2 percent cut in this and that across the board.

There are whole areas of government where the efficiencies are minimal and where the costs are high. If you did away with the Legal Services Corporation, would the Nation be any worse off?

I don't think it would and you would save hundreds and millions of dollars. But as Dr. Makin says, the big area, the big enchilada in a sense is entitlements and you do ultimately have to face up to that, and I could give you, but time doesn't permit, 50 or 60 programs where I think cuts could be made where we wouldn't lose much as a Nation, but I think entitlements have to be addressed, including Social Security.

Mr. SMITH OF MICHIGAN. Mr. Chairman, thank you, but I am going to take this chance with a captive audience, two great economists, to ask you to sort of evaluate this idea of putting limits on spending as a way of implementing our balanced budget amendment assuming it gets ratified so if I could give you these, maybe in your spare time, you could look at them.

Mr. VEDDER. Sure.

Mr. SHAYS. Mr. Olver, you indicated you wanted the floor and Mr. Largent, you had a follow-up question.

Do you have any other questions? Then you will go and I will finish my questions or ask mine. You have the floor.

Mr. OLVER. Thank you very much again, Mr. Chairman. I just want to go back to where I was a little bit earlier and point out that I thought there was some question about the data we were talking about there, and I would like to point out to Dr. Makin—by the way, I agree with surprisingly a fair amount of what has been said this morning, in particular with the comment that I think, Dr. Makin, you made that we are redistributing the burdens of profligacy on to our children. I think that is something you both agree in several ways that you made.

But I just want to point out that in the last Carter year, the Social Security expenditure was 4.7 percent of Gross National Product. The last Reagan year, it was 4.5 percent. It was, by the last Bush year, it was 4.8 percent. That is 4.7 to 4.8 on Social Security, which was the main thrust of your argument.

I would like to point out that defense on the other hand, the last Carter year was 5.3 percent Gross National Product, Domestic Product, and the maximum that it went to in the Reagan years was 6.4 and 6.5 percent, which is more than 1 percent upward, and is at its maximum in those years when the greatest deficits in the Reagan years occurred.

If you want to look for entitlements, it is, in fact, Medicaid and Medicare, which if you look from the last Carter year until now, it is up six-tenths of 1 percent. It has doubled in that time from .6 to 1.2.

In the case of Medicare, it is up by 1 whole percent from the last Carter year until now. That is where a percent occurs, but not in Social Security. Interestingly enough, I was a little surprised to find the data a dramatic diversion from what you were saying at that—in previous comments.

Now, I would like to then go back to my original statement which was that in the—I can take the 4 Carter years, is—about 34 percent is the average of the total debt, the gross debt as a percent of Gross Domestic Product over those years, the last years, 33.5 percent.

Then for the next 12 years, year after year, it went up from 33.5 percent each year, not a break anywhere, until it reached 69.1 percent in the last Bush year, and since then it has been with its projections, the real ones and the projections has been 70, 70.3, 70.7, and on-out projections, by I think all of our agreement, mean very little.

But the increase is extremely slight, and I would like each of you again to characterize the years from 1982 to 1993, the Reagan and Bush budgets when we more than doubled the gross debt as a percent of Gross Domestic Product where almost unanimous votes came from the Republican side and again, I would say I am embarrassed to admit that enough votes came from my side to have passed those budgets.

Mr. MAKIN. Well—

Mr. OLVER. You talked on that before. Give some time for Dr. Vedder.

Mr. MAKIN. OK. I did want to just—I thought your comments were addressed to my——

Mr. OLVER. Well, the data, but——

Mr. SHAYS. You can answer the question. We will let both. We have a little time here.

Mr. Vedder, do you want to just—you wanted to answer. He made some comments about what you said. You should be able to answer.

Mr. MAKIN. That is all I tried to do. First of all, let me say that I need to just—I did a detailed analysis of this 4 or 5 years ago, and I would like to at least ask your permission to send it to you.

Mr. OLVER. Please.

Mr. MAKIN. It is arithmetic. You are certainly correct that Medicare and Medicaid contributed heavily to the increase in deficits that grew faster than GDP, and that is what generates a rise in debt.

You can't—I mean, if you look at the numbers, you can't ignore Social Security for a simple reason. It is such a big item.

Mr. OLVER. But if the percentage of Gross Domestic Product doesn't go up, if it is growing with the rate of the economy, what——

Mr. MAKIN. I want to have a chart where I can look at it year by year. The other point I would make about defense is that the defense buildup began in the last Carter budget, was acknowledged at that time, and actually was at its most rapid in the early 1980's, and so what you will find is that there was a general agreement in Congress there was a need for modernization, buildup of defense, and that was primarily accomplished at the end of the Carter years and in the early Reagan years.

But if you look at defense as a share—defense outlays as a share of GDP based again on past history, you will find that they went down through 1979. That created a consensus that the degree of readiness was way too low, and then they were built up but they never reached the levels that they reached on average in the post-war period.

Mr. SHAYS. Mr. Vedder, why don't you respond?

Mr. VEDDER. I will do it real quick, and because of the time limitation, I will speak only to the last point since the defense was mentioned.

In the Kennedy years, the proportion was about 9 percent, if memory serves me correct, of GDP. The Congressman said 5.3 in Carter. It went up to about a 6.5 percent peak in Reagan, and it is now down to under 4, so I think there has been quite a change in that sector.

I think there is a lot of blame to go around to what happened in the 1980's and early 1990's. The problem is on the spending side, it is not on the tax side, going to Dr. Makin's proportion. That 18, 19 percent tax thing has been relatively constant. The spending rose in that period. There was largely a Democratic Congress and a Republican executive, and you are the experts on who gets the blame. I just look at the numbers.

Mr. SHAYS. If I could, Mr. Largent, you just had one question. Then I would like to close this just asking a few questions.

Mr. LARGENT. Just real quick, I had a meeting with Dr. Ture, who you may be familiar with, and we were talking about some guiding budget principles for the Federal Government, and I notice that my colleague from Minnesota, in his speech over the weekend, talked about that we have to address some fundamental questions, and maybe the most fundamental is, what is the proper role of the government and what should be some of the guiding principles of the budget?

Here are some of the guiding principles he had, and my question is, do you have any at the top of your head that you would add to this? Some of the guiding principles for the Federal Government, the first one, and one that my grandparents taught me, is that if you never spend more than you have, you will never be in debt. No. 2, question any expense of the Federal Government that does not benefit the entire population.

No. 3, is the function performed in the private sector? If so, why do we think the Federal Government can do it better?

No. 4, understand that Federal spending does not grow the economy. All the resources used by the government are removed from the private sector. No. 5, eliminate any programs that are duplicated across departments, and finally he said, if we didn't have this program, would we want it? Are there any guiding principles that you would add to that list?

Mr. VEDDER. That is a good list.

Mr. MAKIN. Sounds good to me.

Mr. SHAYS. I almost am tempted to give you the last word here. I am just going to ask just a few questions. My concern isn't the percent to Gross Domestic Product. I look at numbers, and I see that the interest on the national debt in 1994 was \$203 billion, estimated by the President in the year 2000 to be \$309. In the fiscal year we are at, it is about \$234.

I look at the national debt and say in 1994 it was \$4.6 trillion, estimated to go up \$2 trillion to \$6.6 trillion, and in terms of the blame, I blame Republicans and Democrats, White House and Congress. The Democrats didn't want to control the growth of entitlements. In fact, because of Gramm-Rudman, saw the opportunity to spend in areas they were interested in by expanding entitlements, and that was why in 1990 we wanted the pay as you go for the entitlement side, and Democrats—Republicans didn't want to cut defense.

I mean, I was elected in 1987 and I saw the absolute fear that Ronald Reagan had of conforming to Gramm-Rudman because he would have had to cut more from defense than he wanted, so his bargaining chip was kind of there—was not there. His Achilles heel was he didn't want to cut defense and feared Democrats would.

I guess my question would be, should I be concerned about these high interest costs and shouldn't I be concerned big time that the national debt is going to go up \$2 trillion in the next 5 years?

Mr. MAKIN. Well, that is, I think, the reason that people talk about debt to GDP is that the—very roughly, the ability to manage debt rises with total income. However, we don't know what the optimal level of debt to GDP is. It may be where we are. It may be below where we are. It seems prudent—

Mr. SHAYS. May I just interrupt you? Isn't it a factor though that the interest rate you pay will vary tremendously. People would say after World War II, the debt was the highest compared to GDP, but we were paying a half-percent interest. We went up to 1¼ percent.

Mr. MAKIN. To address that question, if you look at the figures like on average over 5-year periods, you will find that the ratio of interest to GDP is approximately equal to debt to GDP, as interest rates get smoothed out over a 5-year period.

So what I am saying is when you look at the interest burden and the debt burden, they are very similar and you can get concerned about either one.

I think the issue of stabilizing debt to GDP doesn't answer the question of, well, if we stabilize it at 69 percent, is that better or worse than, say, let's try to bring it down to—back to levels that are more typical of industrial economies.

Again, in Europe, for example, they thought about it a lot and they ended up saying, well, you are not going to be able to join the European Union if debt to GDP is over 60 percent.

So there is some suggestion that when you look across countries, that the United States is on the high side with regard to the debt burden relative to GDP and although it is difficult to be precise, in fact impossible to be precise, it seems prudent to think about bringing that ratio down a little bit.

Mr. SHAYS. Mr. Vedder.

Mr. VEDDER. Yes, I pretty much agree with that.

Mr. SHAYS. Mr. Vedder I just want to ask you something. That quote Mr. Largent read, was that done by Mr. Gallaway? Because I had no trouble understanding it.

Mr. VEDDER. It was done by my colleague. I would never write anything as arcane as that. I pretty much agree with Dr. Makin.

I don't think Armageddon is about ready to come because of anything that is going to happen in the next 5 years with the budget deficit, and I don't know what the optimal situation is. Still we spend between 3 and 4 percent of our Gross Domestic Product on interest on the debt, and that does involve some redistribution of income from the general taxpaying public in some sense to bondholders, some of whom now live outside of this country, and that does have some potentially negative economic implications that I think if that were to continue to grow would become somewhat worrisome.

Mr. SHAYS. I would like to thank both of you for coming here, the time you have taken and your courtesy in honoring this committee and hearing no one else having questions.

Mr. OLVER. Would you yield for one comment?

Mr. SHAYS. You know, let me ask you something. I would yield for a comment.

Mr. OLVER. I know how difficult it is to keep numbers, and I know we try to do that as closely as we can accurate. I would just point out that the chairman inadvertently said that the proposed debt increase would be \$2 trillion in the next 5 years. It would be \$1 trillion in the next 5 years.

Mr. SHAYS. Excuse me. Let me just refer the gentlemen. I should have said 6 years so that part is correct.

Mr. OLVER. It would be \$1.2 trillion.

Mr. SHAYS. Are you using gross debt? Are you using net debt? Let me just refer the gentleman to the President's own book, on 23, it is \$4.6 trillion in 1994 estimated in the year 2000 to be \$6.675 trillion. That is where I am getting my \$2 trillion increase. But you are right.

Mr. OLVER. I was in line from the deficit figures and you were using some other figure. I am not—I have never been quite sure what the difference is.

Thank you.

Mr. SHAYS. I thank the gentlemen for coming and we are—this hearing is recessed, not adjourned, but recessed. We will reconvene at 2 o'clock to receive testimony from Laura Tyson, Chairman of the President's Council of Economic Advisers. Thank you again. We are recessed.

[Recess.]

Chairman KASICH. I want to welcome the Chairperson of the President's Council on Economic Advisers, and she has been before—you were before this committee the last 2 years?

Ms. TYSON. Yes.

Chairman KASICH. We are glad that you are here today. I understand you have been—I kind of wore myself out with Alice Rivlin 2 nights ago, so I kind of got everything off my chest that I was so frustrated about, but I think as you know I have got lots of problems with the budget and particularly what has been done in entitlements, which I don't see as much, but I think what would be most helpful here today is I have a couple of questions for you. Other members will come, they will have questions.

Why don't we give you a chance to go ahead and make your presentation? My sense is that we are miles and miles apart, but maybe at the end of the day we will figure out a way not to be miles and miles apart.

I get the sense increasingly that the administration kind of feels like over the last 2 years they have put a lot of stuff out, they took a lot of heat, and the sense this time was why don't we let you take some heat. That is not the way I would do it, but that is the sense I am starting to get and kind of a sense of I guess we did our share, now we expect you to catch some heat, and when we did our share you blasted us anyway, so I can understand that, I can understand that concern.

I don't agree with it, but I can understand it, and what I think we ought to do is figure out, get some questions on the table, have you kind of answer some of these things after you make your presentation, and then we will go down the road and see where we end up at the end of the day.

Let me recognize Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman, and again welcome, Dr. Tyson, to the committee, and we look forward to hearing from you, and we will also have some questions on some of your recommendations after your comments.

Ms. TYSON. Shall I begin?

Chairman KASICH. Yes.

**STATEMENT OF DR. LAURA D'ANDREA TYSON, CHAIR,
COUNCIL OF ECONOMIC ADVISORS**

Ms. TYSON. Maybe what the most sensible thing for me to do perhaps is to talk a little bit about the forecast and the strategy underlying the budget, since you have already had an extensive discussion with Dr. Rivlin about the details of the budget.

I think it is important to recognize, as I am sure you do, that the budget itself depends upon an economic forecast, and also the budget itself reflects an economic strategy, the strategy designed to deal with the problems of the economy as we perceive them, so let me begin with focusing on the forecast and then talk a little bit about the overarching strategy. To put the forecast in context, I think it is important to start with a few of the facts about the economic situation in 1994.

Let me say, before I get started, that there is a written statement which will be longer than what I am going to give in my oral presentation, and that that should be entered into the record.

In the economic situation in 1994, I think by most standard measures of evaluating the economy's performance the U.S. economy had a remarkably good year. It enjoyed a balanced and broad-based economic expansion. Real output grew by 4 percent, which was the highest annual growth rate since 1987; payroll employment increased by 3.5 million, the largest annual increase in employment since 1984; the unemployment rate dropped by a full percentage point.

In the 2 years since the administration came to office, 5.6 million jobs have been added to the economy, 93 percent of those in the private sector. Another part of the good news of 1994 was very good news on the inflation front. The Consumer Price Index increased only 2.7 percent in 1994. That is a continuation now of 3 good years on consumer prices. If you take out the food and energy component of the CPI, which is more volatile than the other components, you see that what is called the core Consumer Price Index actually enjoyed its smallest increase in 28 years, and so if you combine employment growth, output growth, and inflation, you can say that the combination is really one of the best macroeconomic performances in a generation.

Now part of our strategy was informed by the fact that even in a 2-year period from, say, around the middle of 1993 and through 1994, even in that period of a very strong economy, one could see some longer term trends that were actually very disturbing, in particular if you look at the median household in the United States or the median family in the United States, and you look at what has happened to their real income over a 20-year period.

Essentially, their real income in terms of purchasing power has been stagnant, and so that is a long-term problem that in our strategy, our budget strategy and our economic strategy, we are trying to address. That trend seemed to persist through 1994 because if you look, for example, at hourly compensation growth, hourly compensation only barely outstripped the rate of consumer price inflation, indicating that for many Americans there was probably not much of a gain in their real purchasing power income.

In addition to the stagnation in family incomes, there has also been a disturbing trend of increasing inequality between families

at the bottom of the income distribution and families at the top. In particular, between 1973 and 1993 there is a chart in my testimony which shows that the share of aggregate income received by the bottom 80 percent of families actually declined. It was only the top 20 percent of families that actually saw an increase in income in that 20-year period.

So those should be kept in mind in judging the economy's performance in 1993 and 1994, and in thinking about the long-run problems that we face in the economy.

Now let me turn to the forecast, the short-run medium-term forecast which undergirds the budget. The administration prides itself on making realistic forecasts of economic conditions. We believe the evidence of the past 2 years suggests that our forecasts have indeed been conservative.

Actually, where our errors have occurred they have occurred so that we have had unexpected good news rather than unexpected bad news. When I testified before this committee last year, I said the economy is poised for a sustained expansion. Now forecasting is an inexact, maybe not even a science, maybe it is an inexact art, but it is satisfying when your forecast proves to be about right, and the major surprise in the U.S. economy in 1994 was that real growth exceeded the forecast by a significant amount, even though interest rates were higher than predicted and inflation was somewhat lower than predicted.

This year's forecast continues what we believe to be the conservative tradition of our prior forecasts. We are forecasting a moderation of growth in 1995, as the effects of increases in interest rates spread more broadly through the economy. For 1995 as a whole we forecast real GDP growth at 2.4 percent relative to 1994, then in 1996 and through 2000 we predict that the economy will grow at 2.5 percent, and that 2.5 percent comes from a view that economists have of the world when an economy is running at relatively high levels of resource utilization, so we have high levels of capacity utilization and we have much lower levels of unemployment than we had just 18 months ago, that the growth rate of that economy over time depends upon how many people enter the labor force, how productive they are, and what the investment rate is.

And if you look at those in the U.S. economy right now, a reasonable forecast seems to be that the economy can sustain over time growth of about 2.5 percent, and that is where we get that forecast. Our inflation forecast, like our previous forecasts, suggests that there may be a slight increase in inflation in 1995. Consumer prices are projected to increase by 3.2 percent in 1995 and stay at that level through 1998, falling slightly to 3.1 percent in 1999 and 2000.

The other thing I will say about the forecast is I will mention interest rates. We can talk about any aspect of the forecast, but interest rates are always of interest to people. They are probably the hardest thing to forecast, I want to indicate that. Our forecast now anticipates a 50 basis point increase in short-term rates during the first quarter of 1995.

In fact, that has largely occurred. We then see interest rates on short term easing a little bit through next year and essentially holding at around 5.5 percent from 1996 through the year 2000.

Our long-term interest rate forecast, we have a revision upward in 1995 to 7.9 percent, then coming down to 7.0 percent between 1997 and 2000.

We have a table here in the written forecast which compares our forecast to the Congressional Budget Office forecast, the Blue Chip forecast. We can talk about differences between the forecasts. I would argue that these differences are actually quite small, that these forecasts all pretty much see the same kind of economy, an economy which is going to grow at around 2.5 percent for a while, an economy which may see some increase in interest rates, but then leveling off, an economy which will not—does not seem to confront any significant change in its inflationary environment, an uptick perhaps this year but nothing more significant than that.

Of course, with any forecast there are risks, both on the upside and on the downside, and we can talk about that in our conversation. Let me just talk about our strategy now because I do want to quickly give you an overview of how I think our budget policy holds together based on the economic strategy. Remember, the strategy has as a basic goal raising the living standards for all Americans, and is very much influenced by the income numbers I gave you earlier in my statement.

The first step we believe to establishing a sound basis for raising living standards in America is a sound fiscal foundation for the Federal Government. Getting the Nation's fiscal house in order requires a deficit reduction plan that is balanced and gradual, yet large enough to be credible and to have a significant positive effect over time. This administration's initial budget plan enacted as OBRA93 met this test, and this year's budget follows up on the legacy of further deficit reduction.

There are several ways to see the effects of deficit reduction. I as an economist have always argued that the right way to look at the deficit is as compared to the size of the economy. In 1992 the deficit reached 4.9 percent of GDP. For fiscal year 1996, the deficit is projected to be 2.7 percent of GDP.

By 1998 it is projected to fall to 2.4 percent of GDP, half of the 1992 level, and the lowest level since 1979. By comparison, between 1982 and 1992 the deficit averaged 4.5 percent of GDP. Under President Clinton for the first time since the 1960's, expenditures on government programs are less than the taxes paid by the American people.

In other words, current deficits result from the burden of paying interest on previous accumulated debt. This is not because we are not paying for our own programs. It is because of a set of policy decisions made in the 1980's which caused the debt of the country to quadruple in recordbreaking time.

Now, another way to look at the deficit and the deficit improvements is by what economists call structural budget deficit, and I want to emphasize that deficits do not just depend upon economic policy, they depend upon the state of the economy. When the economy goes into a slowdown, the deficit gets worse. When the economy is doing well, the deficit gets better.

The notion of a structural budget deficit is an attempt to measure that part of the deficit that is directly under policy control. We have in the written testimony a chart showing the structural budg-

et deficit as a share of GDP and shows the substantial effect which the policy of OBRA 1993 along with the additional deficit reduction in this year's package has had on that structural deficit performance.

From 1992 to 1993, the structural deficit as a percentage of GDP was nearly 4 percent. It is now going to fall to about 2.5 percent of GDP. Now we also want to emphasize here that deficit reduction is a means to an end. It is not the only part of our strategy. It is the linchpin of our strategy. It is the first step in our strategy, but it is not the only part of our strategy.

We have always argued that deficit reduction needs to be accompanied by other things. The other things include a change in the composition of government spending. In particular, using some of the declining government spending dollars to spend more on our children, more on education and training, more on science and technology, and those kinds of public sector investments have been shown both here and around the world to be an important part of contribution to living standards, so we, in our budget, ask for more spending on certain programs, even as overall spending is declining.

Finally, a third component of our strategy, of course, has been tax relief for working families. We started that in our OBRA 1993 proposal, with a substantial expansion of the earned income tax credit. That has reached 15 million American families. This year we have a second round of tax cut proposals aimed at middle class families, and we can talk about those in the detail that you would like.

Let me also emphasize, by way of concluding, that if I thought about our unfinished agenda, besides the middle class tax relief proposal that we have on the table, our other aspects of our unfinished agenda include an increase in the minimum wage. We have looked at that situation, recognized that the minimum wage has declined in real terms significantly. It is headed to a 40-year low in terms of its real purchasing power, and we believe it can make an important contribution to rewarding work and encouraging people to go to work and stay at work and can make a significant contribution to the problem of earnings at the bottom of the income distribution.

Other administrative initiatives that we would like to work with the Congress on, obviously, include welfare reform and health care reform, where the President has been a leader in offering proposals to the Congress last year, and then of course we continue to work on the National Performance Review because we are committed to scaling back programs that are no longer needed to move dollars into tax relief, into deficit reduction, and into spending on things like education and training which we do need.

Let me just conclude by saying 1994 was a very good year for the American economy. We had solid economic growth, low inflation, declining unemployment. It is the best overall economic performance in a generation. There are many challenges before us, the most fundamental of which is to restore the American dream to all American families.

We believe we put some important foundations in place. We believe our fiscal 1996 budget is another step, but we certainly look

forward to working with you and the American people to achieve this common objective.

Thank you.

[The prepared statement of Ms. Tyson follows:]

PREPARED STATEMENT OF DR. LAURA D'ANDREA TYSON, CHAIR, COUNCIL OF
ECONOMIC ADVISORS

Mr. Chairman, before I get started, I want to thank you and the committee for the opportunity to testify today. It is indeed a pleasure to be here as a member of this Administration to discuss both the economic success story of the past 2 years and the encouraging prospects for the future.

Last year we witnessed an economic payoff to the tough fiscal decisions embodied in the Omnibus Budget Reconciliation Act of 1993 [OBRA93]. The deficit shrunk by \$52 billion in fiscal year 1994 due to the initiatives set forth in OBRA93 (\$72 billion if special factors such as receipts from the sale of assets acquired from failed thrifts are excluded). And we anticipate a cumulative total of more than \$600 billion in deficit reduction from the pre-OBRA93 baseline through 1998. Of this amount, \$505 billion comes from spending cuts and revenue increases contained in OBRA93; the remainder is due to technical revisions and the improved economic climate which, in part, resulted from OBRA93. The Administration's 1996 budget package adds another \$81 billion in budgetary savings through 2000. This Administration has clearly demonstrated to the American people that fiscal responsibility is not just political rhetoric but a linchpin of our entire economic agenda.

My testimony today consists of three parts: a review of the economy's performance in 1994; a presentation of the Administration's economic forecast for 1995; and an overview of the Administration's economic strategy—embodied in its 1996 Budget—for improving the living standards of all Americans.

THE ECONOMIC SITUATION IN 1994

The U.S. economy in 1994 enjoyed a balanced and broad-based expansion. Real gross domestic product [GDP] grew 4 percent, the highest annual growth rate since 1987. Payrolls increased by 3.5 million, the largest annual increase in employment since 1984. Consequently, the unemployment rate dropped over a full percentage point during 1994. Since the Administration took office in January 1993, about 5.6 million jobs have been created; of these 93 percent are in the private sector. The consumer price index [CPI] increased by only 2.7 percent in 1994, about the same rate of increase as for the past 3 years. When the volatile food and energy components are removed, the core rate of consumer inflation registered its smallest increase in 28 years. The combination of strong economic growth and low inflation makes 1994 one of the best macroeconomic performances on record.

This strong performance took place in an environment in which the Federal Reserve increased short-term interest rates several times in an effort to moderate the economy's growth to prevent future inflation. While these rate increases should put a brake on economic growth, we are optimistic about the future prospects for the economy. Business confidence appears strong, as evidenced by high levels of business investment in 1994. Similarly, consumer confidence remains strong, as purchases of durable goods grew rapidly over the year.

While the overall economy appears to be performing well, we are concerned that many Americans are not full participants in the growing prosperity. For instance, real median family income in 1993 is about the same level it was in 1973, despite an increase in real aggregate income of 57 percent during the same time period. Additional evidence of the trend of stagnant incomes for many Americans is the fact that hourly compensation in 1994 (as measured by the employment cost index) increased only 3 percent over the year, barely outpacing the 2.7 percent increase in the CPI. The actual increase in hourly compensation was lower than expected, based on a statistical relationship between the unemployment rate and the growth rate in hourly compensation. This is statistical confirmation of the feeling of many Americans that they are working harder for less.

The stagnation of family incomes has been accompanied by an equally disturbing trend of increasing income inequality. In contrast to the years 1950–1973, when average real family incomes increased throughout the income distribution, between 1973 and 1993, the spread in income inequality became larger. As an example of this fact, Chart 1 shows the share of aggregate income received by families in different parts of the income distribution in 1973 and in 1993 (the most recent year for which these data are available). This Chart indicates that each of the four lowest quintiles of the income distribution saw their share of aggregate income decrease,

while the share for the 20 percent of the population with the highest incomes increased substantially (and much of this increase was concentrated in the top 5 percent).

Over the past 2 years, the economy has grown at an average annual rate of 3.6 percent, as aggregate demand rebounded from the 1990-91 recession and the lackluster growth that initially followed it. In part, the current expansion was accomplished through an increase in the quantity and quality of the labor force and through net additions to the capital stock. To a significant extent, output was able to meet strong increases in demand through re-employment of workers who had been unemployed or underemployed and through the utilization of capital that had been idle or underutilized. By the end of 1994, however, both labor and capital utilization rates were in ranges that suggested little remaining slack. When this happens, the economy's growth rate becomes increasingly constrained by the growth rate of the labor force, net additions to the capital stock, and the productivity of labor and capital. Over the long run, these factors determine the economy's potential for growth or what economists refer to as the growth rate of potential GDP. Based on current information and the economy's most recent historical performance, most mainstream economists believe that the economy's growth potential is around 2.5 percent per year. This estimate of long-run real growth potential is shown by most major economic forecasts and the Administration forecast reflects this view.

THE ADMINISTRATION'S ECONOMIC FORECAST

This Administration prides itself on making realistic forecasts of economic conditions and we believe the evidence of the past 2 years suggests that our forecasts have been conservative as well as credible. In fact, when I testified before this committee last year, I said that "the economy is poised for a sustained expansion." Forecasting may be an inexact science, but it is definitely satisfying when your forecasts prove correct. Indeed, the major surprise in the performance of the U.S. economy in 1994 was that real growth exceeded the forecast by a significant amount, even though interest rates were much higher than predicted and inflation slightly lower than predicted.

This year's economic forecast continues the conservative tradition of our prior forecasts. We are forecasting a moderation of growth in 1995 as the effects of increases in interest rates spread more broadly through the economy. For 1995 as a whole, we are forecasting that real GDP will grow by 2.4 percent relative to 1994. Then in 1996, the economy is expected to settle onto a path consistent with its long-run growth potential of 2.5 percent, a so-called "soft landing". We forecast the economy to maintain real output growth in line with the growth of potential output through the year 2000.

Inflation is forecast to rise slightly during 1995. Consumer prices are projected to increase by 3.2 percent in 1995. Thereafter, consumer price inflation is forecast to remain at 3.2 percent through 1998, before falling to 3.1 percent in 1999 and 2000. More broadly, inflation as measured by the GDP price deflator is forecast at 2.9 percent this year and next. Then we expect inflation to settle at about 3.0 percent over the remainder of the forecast horizon.

The Administration forecast used in preparation of the budget predicts that the unemployment rate will average around 5.8 percent in each year between 1995 and 2000. Since that forecast was made in November, more has been learned about the behavior of the actual unemployment rate. In the upcoming "Economic Report of the President," the Administration presents a forecast range for the unemployment rate of 5.5 percent to 5.8 percent for each year from 1995-2000. We forecast a range both because we are unsure about the impact of the 1994 improvements to the Current Population Survey used to compute the unemployment rate and because some structural change may be underway in the labor market. An important characteristic of our employment forecast is that it incorporates a belief that economic growth over the next several years will be sufficient to absorb all new entrants to the labor force. Therefore, we anticipate little upward pressure on the unemployment rate during this period.

Our forecast anticipated a 50 basis point increase in short-term interest rates (three-month Treasury bill rates) during the first quarter of 1995. As growth moderates during the year, we expect short-term interest rates to fall about 50 basis points by early 1996 and remain there throughout the remainder of the forecast horizon. The forecast for interest rates on 10-year Treasury notes was revised upward for 1995 to 7.9 percent from last year's lower level. Our forecast predicts a decline in these interest rates to an average of 7.0 percent between 1997 and 2000. This forecast reflects the belief that the spread between short and long-term interest

rates will return to a more traditional range than the one experienced in 1994, as the inflation and risk premiums built into long-term rate gradually shrink.

Table 1 compares the Administration's economic forecast to the Congressional Budget Office and Blue Chip forecasts. While there are some differences between these forecasts, the differences tend to be small, and Table 1 indicates a high degree of consistency in these different forecasts.

There are always some risks to any economic forecast. The possibility exists that the interest rate increases engineered by the Federal Reserve will not dampen growth as quickly as anticipated. If this occurs, real economic growth in 1995 could exceed the predicted 2.4 percent rate. A higher than predicted growth rate in turn could result in higher than anticipated interest rates, which could slow future economic growth more than expected.

Similarly, there are risks that the economy may grow more slowly than forecast. For instance, the interest rate increases already in the pipeline may slow economic growth sooner than anticipated or by more than anticipated. Compounding this risk is the possibility that foreign economic growth may stall, reducing foreign demand for U.S. exports. In addition, the large inventory accumulation by businesses over the past year may not have been entirely intentional. If this proves to be the case, then production could be scaled back to reduce an inventory overhang, lowering growth. Finally, the course of the economy depends on budgetary and other policy decisions made by Congress. This year there is an especially high degree of uncertainty about future Congressional actions in matters that can affect output, growth, deficits, and interest rates over the short, medium, and long term.

A STRATEGY FOR IMPROVING LIVING STANDARDS FOR ALL AMERICANS

The Administration's economic strategy for raising the living standards for all Americans has three components. The first is to establish a sound fiscal foundation for the Federal Government. Getting the Nation's fiscal house in order required a deficit reduction plan that is balanced and gradual, yet large enough to be credible and to have a significant positive effect over time. The Administration's initial budget plan enacted as OBRA93 met this test, and this year's budget follows up on that legacy by providing further deficit reduction. To see the effects of these deficit reduction initiatives, consider that in 1992, the Federal deficit had reached 4.9 percent of GDP. For fiscal year 1996, the deficit is expected to be about 2.7 percent of GDP. And, by 1998, we project it to fall to 2.4 percent of GDP, less than half its 1992 level, and the lowest since 1979. By comparison, between 1982 and 1992, the deficit averaged 4.5 percent of GDP.

Under President Clinton—for the first time since the 1960s—expenditures on government programs are less than the taxes paid by the American people (see Chart 2). In other words, our current deficit results from the burden of paying interest on the accumulated debt.

Economists often prefer to focus on the structural budget deficit, which adjusts the deficit computations by eliminating the effects of the business cycle. By this measure, the burden of the Federal budget deficit has declined steadily since 1993, with much of the credit for this improved fiscal picture attributed to OBRA93. Chart 3 shows the structural budget deficit as a share of GDP and indicates the substantial effect that OBRA93, along with the additional deficit reduction in this year's Budget, has had on it.

While the deficit is projected to continue to fall relative to the size of the economy for the next several years, in the first decades of the next century, it will turn up. The problems are an increasingly aging population and rapidly rising health care costs. If we want to maintain fiscal discipline over the long run, we must address the issue of health care reform as soon as possible.

The second component of the economic strategy is a set of policies to help American workers and businesses realize the opportunities that flow from changes in technology and the global economy. The common theme of these policies is investment: both public and private. On the public side, the Federal Government is shifting spending away from current consumption and toward investment in children, education and training, and science and technology. On the private side, the Administration supports targeted subsidies to complement market incentives and encourage investment by individuals and businesses in physical, scientific, and human capital. Throughout, the Administration recognizes that government must not only spend less, it must also spend better, by focusing more of its resources on the Nation's future.

A third component of the Administration's economic strategy is tax relief for working families. The Administration first focused tax relief initiatives on those working Americans with the lowest incomes. The result was the substantial expansion of the

earned income tax credit in OBRA93. This refundable tax credit increases the after-tax income for many lower-paid workers and is an important step toward ensuring that families with full-time workers will not live in poverty. This year's budget includes a second round of tax relief, this one aimed at middle class families. The package of tax cuts introduced by the President in December will help Americans meet the costs of raising their families, acquire more education and training, and save for a variety of purposes.

THE ROLE OF DEFICIT REDUCTION

When viewed in the context of the three components of the Administration's economic strategy, it is clear that deficit reduction is not an end in itself, but rather a means to the end of greater national investment and higher living standards. Deficit reduction has the beneficial effect of increasing national saving (by reducing the negative saving of the Federal Government). This increased national saving is available to private entities for investment in physical capital like machinery and equipment, which in turn can increase labor productivity. But squeezing worthwhile public investments out of the budget to make room for private investment is the wrong way to reduce the deficit. Moreover, one should recognize that deficit reduction by itself is contractionary fiscal policy and constrains aggregate demand. Therefore, there are limits to the amount of deficit reduction that the economy can be expected to withstand in a short period without endangering economic growth. Over the long run, deficit reduction makes room for more private investment, but in the short run it depresses aggregate demand and can even depress private investment. For all these reasons, the Administration prefers to engage in gradual and measured deficit reduction. Our success to date in reducing the deficit is one reason why the Administration opposes a balanced budget amendment to the Constitution.

SHORTCOMINGS OF A BALANCED BUDGET AMENDMENT

First, everyone should be aware that the proposed amendment by itself would not reduce the Federal deficit by even one dollar. All the hard choices about cutting expenditures or raising revenues (through either taxes or fees) would still remain. Congressional consideration of a balanced budget amendment without first specifying the changes to expenditures and taxes required to bring the budget into balance provides no evidence of the fiscal discipline necessary to achieve real deficit reduction.

One of the great fallacies behind the logic for a balanced budget is the premise that the size of the Federal budget deficit is purely the result of deliberate policy decisions. This is not the case: the pace of economic activity has a major role. An economic slowdown automatically depresses tax revenues and increases spending on programs such as unemployment and Food Stamps. Consequently, the deficit automatically widens and the additional disposable income made available to consumers cushions the effects of the recession. During economic expansions, the process works in reverse, and the deficit automatically narrows. These effects are termed "automatic stabilizers" because they act by themselves to moderate the effect of business cycles.

But a balanced budget amendment would throw these automatic stabilizers into reverse. Congress would be required to raise taxes or cut spending in the face of a recession, to counteract temporary increases in the budget deficit. Rather than moderate the ups and downs of the business cycle, fiscal policy would be forced to aggravate them.

With fiscal policy deprived of its counter-cyclical role, monetary policy, conducted by the Federal Reserve, would be the only tool available to stabilize the economy. But even well-executed monetary policy (which assumes the Federal Reserve promptly recognizes changes in the business cycle and aggressively acts to offset the effects) cannot completely compensate for the lack of fiscal policy flexibility. In part, the inability of monetary policy to fill the void reflects the fact that monetary policy acts with a long, and uncertain, lag. Moreover, the Federal Reserve could become handcuffed in the case of a severe recession, its scope for action limited by the fact that it can reduce interest rates no lower than zero, and probably not even that low in practice. Finally, the more aggressive interest rate movements necessary to offset macroeconomic fluctuations could actually increase the volatility of financial markets—something the Federal Reserve would probably try to avoid.

The role that fiscal policy can play in smoothing economic fluctuations is one of the great discoveries of modern economics. A balanced budget amendment to the Constitution would eliminate the automatic stabilizers from fiscal policy, and would essentially remove an important element from the economic policy toolbox.

THE ROLE OF INVESTMENT

The Administration is embarked on an ambitious agenda to increase investment in many types of capital. One aspect is to increase the stock of human capital, by improving the education and training prospects for all Americans. Examples of Administration initiatives in this area are: increased funding for Head Start, Goals 2000, the School-to-Work transition program, AmeriCorps (the National Service Program), and the income contingent student loan program. All these programs support human capital development throughout a person's lifetime.

In the area of science and technology, the market itself may not provide sufficient incentives for development of all socially desirable investments. This is because the benefits of research do not always accrue to the inventor, but rather to society as a whole through the dissemination of scientific and technological advances. The Administration recognizes the importance of scientific research, an area that has long received bipartisan support in budget decisions. While total discretionary spending remains approximately fixed in nominal terms, Federal spending on science and technology has edged upward during this Administration.

The Administration policy toward opening foreign markets complements its emphasis on investment. Exports play an increasingly important role in the livelihood of American workers since over 10 million American jobs now depend on exports and export-related jobs pay substantially higher than average wages. In addition, the reduction of barriers to trade raises the standard of living by providing a wider variety of goods to American consumers at lower prices. And foreign competition can lead to greater efficiency and productivity in U.S. businesses. Four examples of the Administration's commitment toward opening foreign markets to U.S. goods and services are: NAFTA, the Uruguay Round of the GATT, and the trade discussions that took place at the Summit of the Americas and the recent meeting of the Asia Pacific Economic Cooperation [APEC] forum.

THE UNFINISHED AGENDA

Over the next 2 years the Administration plans several major policy initiatives. One of these, middle-class tax relief, was announced by the President in December. There are three main elements to the initiative—a child-based income tax credit; a deduction for some of the costs of postsecondary education; and an expansion of individual retirement accounts. All of these proposals are intended to help average Americans cope with the demands of today's economy.

A second initiative was detailed by the President last week—an increase in the minimum wage. This proposal reflects a determination to ensure that working families can lift themselves out of poverty, as well as a recognition that inflation has substantially eroded the real value of the minimum wage. The proposed increase of 90 cents per hour, phased in over 2 years, would go a long way toward reversing the effect of inflation, without any discernible impact on employment prospects.

Other Administration initiatives include welfare reform and health care reform. In both these areas, the Administration proposed legislation in 1994. We intend to work with the Congress in a bipartisan manner to ensure that progress can be made in each of these crucial areas this year.

One last ongoing Administration initiative is the effort to reinvent government—the National Performance Review [NPR], under the direction of Vice President Gore. Through the end of 1994, the Administration's reinventing government reforms had reduced the Federal workforce by about 100,000 employees and had made substantial progress in the area of government procurement. A second round of NPR reforms was announced in December 1994, with projected savings of \$26 billion over 5 years. While the NPR generates savings in Federal spending, this is not the only reason to undertake reinvention. The goal of the NPR reforms is to improve government and to provide services that are in the national interest. That is, we want to create a government that is leaner, not meaner.

CONCLUSION

As you know, 1994 was a very good year for the American economy. The solid economic growth, combined with a low rate of inflation and declining unemployment made for the best overall economic performance in a generation. But there are many challenges before us, the most fundamental of which is restoring the American Dream to all families in a world of changing technology and increasing competition.

Some important foundations to achieve the goal of higher living standards, broadly shared, have already been put in place. The fiscal 1996 budget represents another step. We look forward to working with you and the American people in this common endeavor.

TABLE 1.—1995 FORECAST COMPARISON

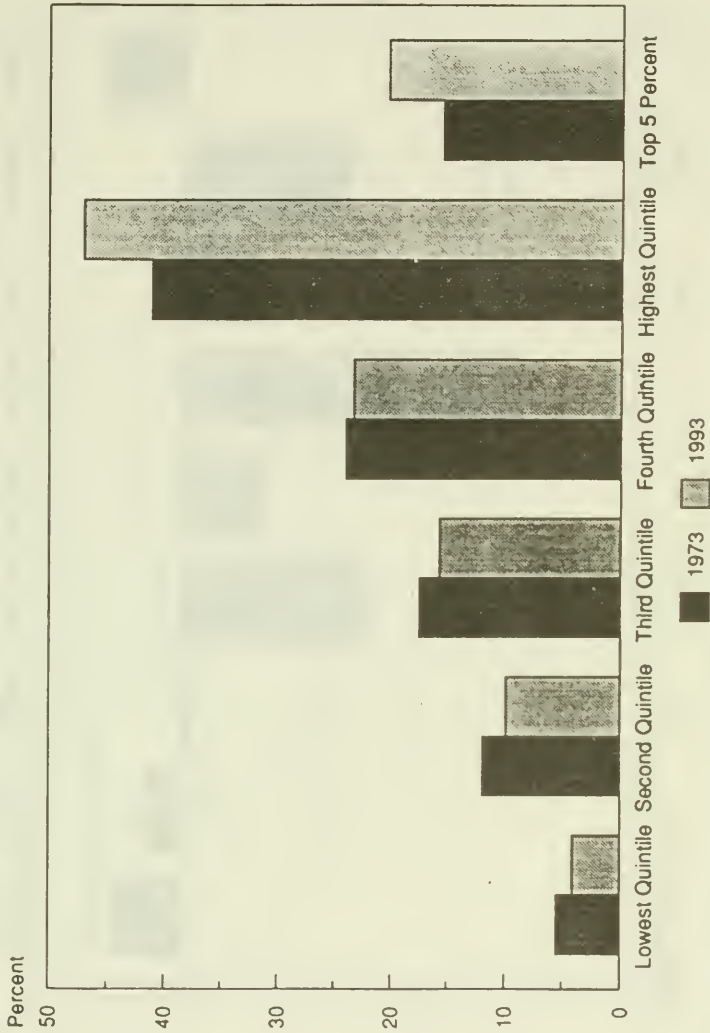
[Annual detail, in percentages]

	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP, 4Q/4Q growth	3.1	4.0	.....	.....	.....	.....	.....	.....
CBO			2.5	1.9	2.4	2.3	2.3	2.3
Blue Chip			2.5	2.2	(2.2)	(2.3)	(2.6)	(2.4)
Mid-Session Review (July)			2.7	2.6	2.5	2.5	2.5	NA
Administration Forecast			2.4	2.5	2.5	2.5	2.5	2.5
GDP Deflator, 4Q/4Q growth	1.8	2.3	.....	.....	.....	.....	.....	.....
CBO			2.8	2.8	2.8	2.8	2.8	2.8
Blue Chip			3.1	3.2	(3.3)	(3.1)	(3.1)	(3.0)
Mid-Session Review (July)			2.8	2.9	3.0	3.0	3.0	NA
Administration Forecast			2.9	2.9	3.0	3.0	3.0	3.0
CPI-U, 4Q/4Q growth	2.7	2.6	.....	.....	.....	.....	.....	.....
CBO			3.2	3.4	3.4	3.4	3.4	3.4
Blue Chip			3.5	3.5	(3.7)	(3.6)	(3.5)	(3.4)
Mid-Session Review (July)			3.2	3.3	3.4	3.4	3.4	NA
Administration Forecast			3.2	3.2	3.2	3.2	3.1	3.1
Annual Averages								
Civilian Unemployment Rate	6.8	6.1	.....	.....	.....	.....	.....	.....
CBO			5.5	5.7	5.8	5.9	6.0	6.0
Blue Chip			5.6	5.7	6.2	6.3	6.2	6.1
Mid-Session Review (July)			6.2	6.1	6.1	6.1	6.1	NA
Administration Forecast					(5.5 to 5.8)	.....	.....	.....
3-month T-bill	3.0	4.3	.....	.....	.....	.....	.....	.....
CBO			6.2	5.7	5.3	5.1	5.1	5.1
Blue Chip			6.2	6.1	5.2	4.9	4.9	5.0
Mid-Session Review (July)			4.7	4.8	4.8	4.8	4.8	NA
Administration Forecast			5.9	5.5	5.5	5.5	5.5	5.5
10-year T-note	5.9	7.1	.....	.....	.....	.....	.....	.....
CBO			7.7	7.0	6.7	6.7	6.7	6.7
Blue Chip			8.7	8.5	8.0	7.8	7.8	7.8
Mid-Session Review (July)			7.0	7.0	7.0	7.0	7.0	NA
Administration Forecast			7.9	7.2	7.0	7.0	7.0	7.0

Note.—Numbers in parentheses are year-over-year figures. Blue Chip forecasts for 1995 and 1996 were made in January 1995, and forecasts beyond 1996 were made in October 1994. A Blue Chip forecast for the 10-year rate is not available. The corporate rate is given instead. The corporate rate is usually about 60 basis points above the comparable government rate.

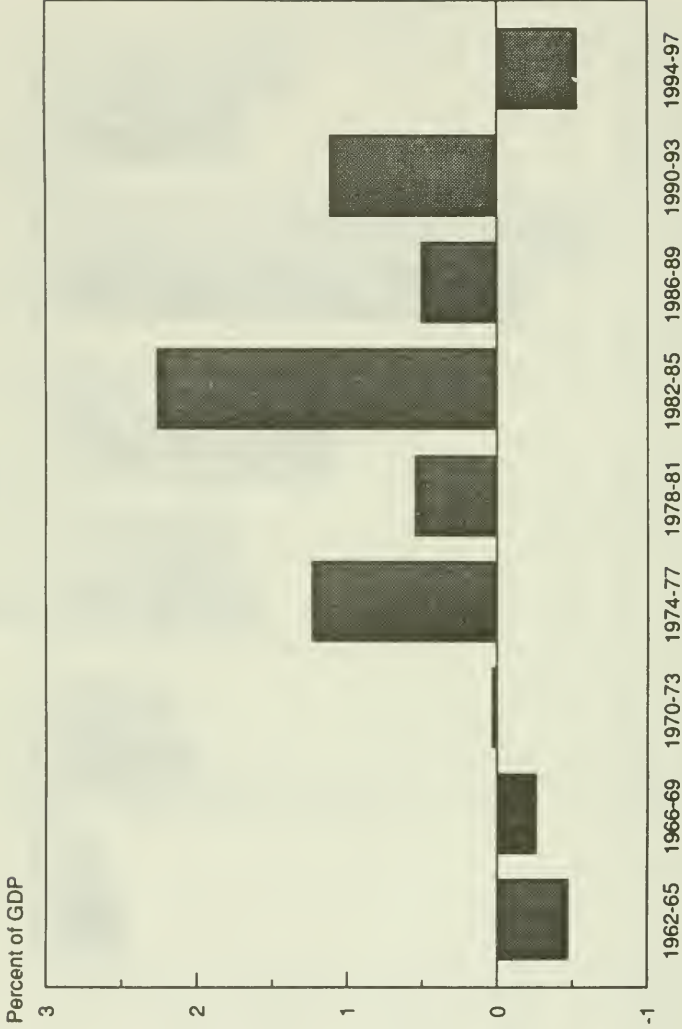
Chart 1. Share of Aggregate Family Income by Quintile

Between 1973 and 1993, the share of money income received by the 20 percent of families with the highest incomes rose substantially. The shares for all other quintiles fell.



Source: Department of Commerce.

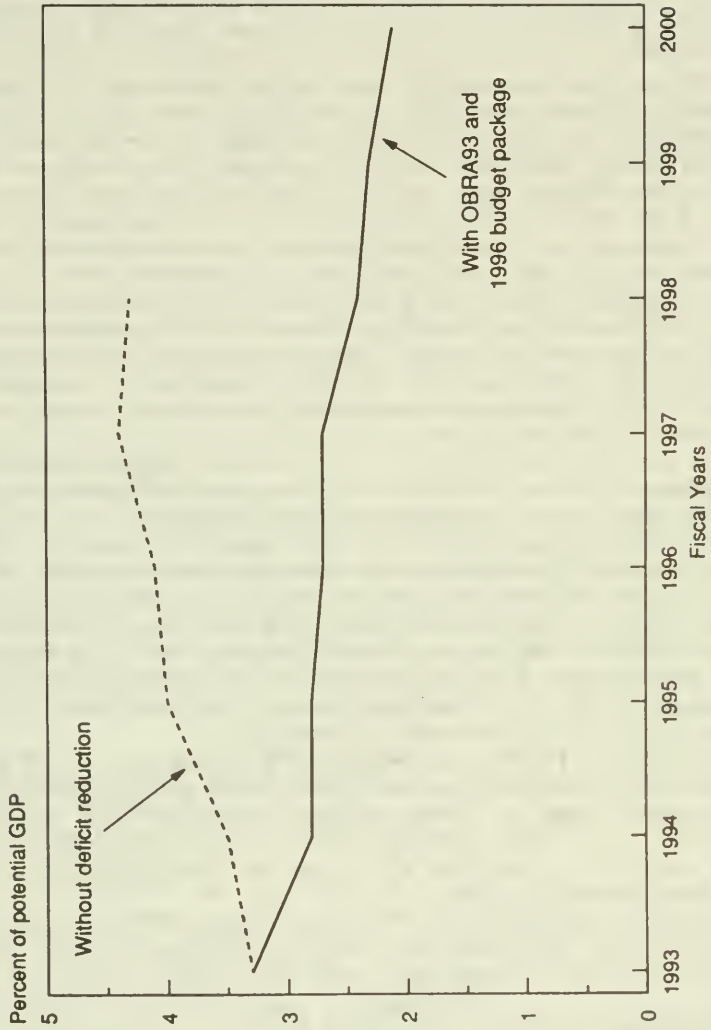
Chart 2. Average Annual Non-Interest Deficit by Administration
Federal program spending is less than revenues for the first time since the 1960s.



Note: Data for 1995-97 are estimates from the 1996 Budget.
Source: Office of Management and Budget.

Chart 3. Structural Budget Deficits

Policy changes enacted in 1993 arrested the upward trend of the deficit, and the President's proposed budget for fiscal 1996 will achieve even more deficit reduction.



Note: Structural deficit excludes cyclical revenues and outlays.
Sources: Council of Economic Advisers and Office of Management and Budget.

Chairman KASICH. Thank you very much, Doctor. Let me—you know, I guess it is this old business of how you want to paint the picture, and maybe we could paint it one way and you can paint it another way, but let's talk about the guy that counts right now.

The guy that counts right now is Alan Greenspan. The reason he counts is because everybody across this country holds their breath every time he tries to bump up interest rates—he doesn't try, I guess Federal Chairmen don't try to do anything, they just do.

My constituents keep talking to me and warning me about it, and I am sure the constituents of everybody in here are warning them and are concerned about interest rates because of the way it affects not just business but home buying as well. Greenspan came before a joint committee in January, I believe it was, early January, and I am trying to dig out the record. I should have had this, but he said currently real long-term interest rates remain relatively high partly because of unexpected growth of budget deficits later in this decade and thereafter. Rates have gone higher since he made this statement.

He also said conversely that if in fact the Congress would be able to pass a deficit reduction plan that would significantly reduce the deficit both in the short term and the long term, it would have an enormous economic benefit for this country. I would be willing to bet you that if we asked Alan Greenspan what he thought about this budget—well, let me ask you, what do you think he would say about this budget proposal and its projections of deficits in the \$200 and \$300 billion range over the next—as far as the eye can see, what do you think he would see about this budget from an economic point of view? You have painted it as being very bright. Tell me what you think he would say about this.

Ms. TYSON. I think you would have to ask him. I try never to comment on Federal Reserve statements or policy. I think it is an appropriate position for the administration to take to leave the monetary authorities to make their own decisions. I would assume the monetary authorities will allow the fiscal authorities also to make their own decisions.

Chairman KASICH. I didn't get that answer. What did that mean?

Ms. TYSON. It means that I am not going to vaguely speculate about what Alan Greenspan would say. It is not wise for I think the making of both independent monetary policy decisions and independent fiscal policy decisions for me to speculate on what he would say.

Chairman KASICH. Since you find yourself in that position, let me speculate. He would tell you your budget is a disaster. Now maybe we should have somebody from the press go to him and ask him what he thinks. We have got a couple people here from the press, ask him what he thinks about the long-term economic impact of this budget if Congress were to enact this.

Here is why I say this. First of all, we don't know what is going to happen to this economy, although we do know that interest rates still edge up, and I would maintain if Republicans fail in reducing the budget deficits, rates will go higher. What would you think about that? If Republicans fail to reduce the deficits, what do you think that impact would be farther than what you have?

Ms. TYSON. I think it is important to start this discussion with the following observation: There are many things that affect the level of long-term interest rates. If you look at the past 2 years, you can see that quite clearly.

During 1993, and Alan Greenspan, I believe in a statement before some Member of Congress did make the statement that part of—that the sustained deficit reduction coming out of OBRA 1993 had set in place solid foundations for the economy's growth, something to that effect. We can dig that out of the record, but he said something like that.

He was saying what we and many others said at the time, including many Wall Street observers, that one determinant of the level of long-term interest rate is the anticipated borrowing needs of the government, the anticipated deficits of the government, but that is not the only determinant of long-term interest rates, so in 1993 you saw a very dramatic decline in long-term interest rates as the world came to believe that instead of running deficit to GDP ratios of 4.5 percent, the United States was going to go down to less than 2.5 percent.

But then interest rates started up, and we know that they have gone up very dramatically. Now why did they go up? Almost all economic observers will argue they went up because the U.S. economy and the global economy became much stronger. The government is not the only borrower out there. Households and private businesses borrow, and the fact that interest rates have increased over the past 12 months significantly to most observers is not a sign of the weakness of the American economy, it is actually a sign of the strength of the American economy and of the global economy along with it.

Chairman KASICH. Well, Doctor, I can only tell you what he told us when he came here, and he told us if the government would cut its deficits, long-term interest rates would be dramatically improved. He didn't say it was because of some other—

Ms. TYSON. Let me—

Chairman KASICH. Let me finish. He said in his testimony, it wasn't—he didn't say well maybe there is this factor and maybe there is that factor. He flat out told this committee that if in fact we will make significant reductions in the budget deficit, long-term rates in fact would come down dramatically.

Now, what he said in 1993, I know what he said, you are right he did say in 1993 that this contributed to some things. He is not saying that today. You know why? Because he believes that these long-term deficits have a very negative impact on interest rates. He said it.

He didn't say about anything other than the actions of the deficit, and he also promised us that if in fact we make significant reductions, we would see significant improvements in this economy. Now, let me ask you, I have added up just roughly since the hearing started the total amount of entitlements, excluding Social Security and interest, and this number is probably low, the total amount of entitlement spending over the next 5 years approximately is \$2.3 trillion.

Now, the administration has \$29 billion in entitlement savings over the next 5 years; 12 of those billion is an OBRA extension. In

other words, in anticipation that these extensions wouldn't occur, people would get more benefits, we are just going to keep it where it is, that saves \$12 billion.

We will give you credit for it, we will take it as well, but frankly, we are talking about \$17 billion in new entitlement control out of \$2.3 trillion. Now, how do you think that anybody on Wall Street or anybody down at the Fed or anybody in America would be optimistic about the long-term future of this economy when we are going to cut—when we are going to save, not even cut, save \$17 billion out of \$2.3 trillion in spending?

Ms. TYSON. Well, first of all, I might want to point out that actually long-term interest rates have been coming down, have eased off about 50 basis points since November of last year and now, so in all of this process of these numbers coming out and being discussed here, just to show you that there is no simple relationship between any deficit number and any long-term interest rate, I just refer you to what has been happening to long-term interest rates, and on the issue of entitlements, what I would say is what is stated clearly in my testimony, and I ended with this, the President lead on the issue of health care reform before the Congress.

As he said clearly in his State of the Union Address, from the point of view of what happened, we bit off more than we can chew. I think as Director Rivlin has said to you, as Bob Rubin has said to other committees, and as I have said to other committees, we should not talk about an abstract entitlement problem in the United States. People should understand what we are talking about in the near term is a problem of health care spending, and that is a problem which is not just a Federal Government problem, it is a private sector problem. And if we come to any effort to deal with the entitlement problem, that is simply limiting in some arbitrary way, for example by imposing an arbitrary slow down in the growth rate on Medicare, Medicaid or some other part of health care of Federal spending, if we do that, the health care problem won't go away, it will be shifted.

The sick people don't disappear, the services need to be performed, and the cost, the burden of those services being performed will move someplace into the society. So this President has proposed that in order to get further improvements on the rate of growth of entitlement spending, we first define it appropriately as a health care spending problem, and we deal with that within the context of a meaningful health care reform effort. And the President would like to work with Congress on that, as was evident last year.

Chairman KASICH. Last area. I want to tell you that the reason why the long-term rates have come down to some degree is because the short-term rates went up. I can only go back to January and tell you—look, the proof will be in the pudding. We will ask Alan Greenspan what he thinks about this plan. What he has argued to us clearly is that if we will deal with budget deficits, he does not believe, he did not believe until just recently that we could. He is still not convinced we will.

We have to convince him of that by doing it, not by talking to him about it, but the President's health care plan that he brought forward to this Congress last year increased the deficit. It didn't

decrease the deficit. So if you are worried about health care plans and you want to turn the health care system over to the government and get scored by CBO as actually increasing the deficit, how does that deal with the health care costs in this country?

Ms. TYSON. I think the correct analysis of our plan by CBO showed that after a decade, it started to make improvements on the deficit.

Chairman KASICH. So for 10 years we are going to explode the deficit?

Ms. TYSON. You have to look—we don't believe the deficit is exploding, it is certainly not exploding relative to the size of the economy, it is not even exploding absolutely. Exploding is the wrong word to use with the deficit line we are on, simply the wrong word.

Chairman KASICH. I just said to you that we have \$17 billion in savings out of \$2.3 trillion. How do you explain that? You said it is because we are not dealing with health care costs. I just said to you that the President's health care cost program exploded the deficit for the first 10 years. What is the answer?

Ms. TYSON. My answer is we would like more deficit reduction, we would like to work with you on entitlements. We do not see the issue as some—it sounds so simple to the American people to say what we have to do is get entitlements under control. The truth is, and this is what people need to pay attention to, the truth is what we are talking about primarily as the area of spending that is now not growing slowly relative to the size of the economy is one area, and it is health care spending, and many people in this society are beneficiaries of the current health care system.

Now, we have to do something to get the current health care cost line under control, but it is our view that you cannot do that by any arbitrary set of cuts, you have to do it in the context of reform. You might not have liked, you clearly didn't like the health care reform proposal we made last year, which is one of the reasons why we didn't make one this year, but we want to cooperate with you on first defining the real problem for the American people and then working out a solution.

Chairman KASICH. In conclusion, I will tell you, I think the American people understand the problem, and the problem is simply this: This city is just bent on spending until there is no tomorrow, and we have been across the country listening to people outside of the beltway, and you know what they have been telling us? Cut the programs, fix the budget deficit, do the right thing, show some courage. That is why we are going to have to come forward and do it. I am going to be very hopeful that we are going to get your support, not your criticism whenever it comes time to lay our package down. We will deal with entitlements, I can promise you—

Ms. TYSON. It depends what it does.

Chairman KASICH. I can promise you we will do better than \$17 billion out of \$2.3 trillion. Let me tell you, if we don't, I want everybody in the country to judge us as failures because that is how I judge what has been sent to us.

Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman. I have a question for Dr. Tyson, but first let's simply put things in context. I recall, Mr.

Chairman, the predictions of the Republican leadership on what would happen if we passed the President's program in 1993. As I recall, those were predictions of dire economic consequences of recessions and exploding deficits. The reality has been totally the opposite.

Chairman KASICH. Will the gentleman yield on that?

Mr. SABO. OK.

Chairman KASICH. I think that we are beginning to see exactly what we predicted. Deficits in the outyears with continued economic growth that is over \$300 billion, you are seeing rising interest rates, and after all the taxes and everything that you levied on the American people, we don't have deficits under control in anybody's definition other than the people down at the White House.

Mr. SABO. Mr. Chairman, I don't have your comments and that of Mr. Gingrich and Mr. Armey with me. Your predictions were that the deficit for 1993 wasn't going to come down and the deficit for 1994 wasn't going to come down, the economy wasn't going to grow, it was going to result in a recession and unemployment was going to go up. Totally the opposite happened. So let's have that as part of history, and that is fact.

Also as related to what Dr. Greenspan had to say, he was very specifically referring to our ability to deal with long-term funding of Social Security, and he was not talking about 5-year spans. He was talking about 20-, 30-year spans, and, frankly, as someone who served on the Kerry-Danforth Commission, one of my hopes had been that we might be able to find bipartisan agreement for how to deal with the long-term problem of Social Security.

When the new Speaker said it was not going to be on the agenda, any momentum to make the tough choices to find agreement quickly disappeared. I, too, believe that we need to do further deficit reduction than is projected in the President's budget.

However, I also understand the reaction of my Republican friends who would like very much to have additional recommendations by the President on how to cut entitlements so they could use it for a \$700 billion tax cut over the next 10 years. I think all of us know what the priority of the contract is, and the priority of the first 100 days has nothing to do with reducing the deficit.

It is to do substantial cuts to pay for a very, very huge tax cut. They may be paid for over the first 5 years. We will also be very interested to see if it is paid for over the second 5 years.

But as it relates to entitlements, one of the factors that does impact the growth of entitlements in this country beyond how we structure them is changing income structure of this country, and clearly we have had a revolution where income flows over the last 20 years in our society. Income has been static and declining for most Americans. Income has not kept up with productivity, and the one phase where income growth has occurred is very much at the top of the economic scale.

The question of homelessness, people living on the street in part relates to social problems, but part of it relates simply to the declining salary paid to the thousands of Americans who live in urban centers. The increasing number of working Americans who need housing assistance and food stamps is directly related to a declining salary and wage base for hard-working Americans.

Increasingly hard-working Americans who work full-time simply don't have enough money to buy the basic necessities of life—food and housing—and we find ourselves needing to supplement that. They are simply not going to exist in our modern economy.

Therefore, Dr. Tyson, I really congratulate you and the administration for your proposals on the minimum wage. If I had my preference, we would go much higher. We had two Republican—I may be mistaken, strike Republican—two very conservative economists before us today whose view of the world was that the Congress made a mistake when we passed Social Security, and we made a mistake when we passed Medicare. They don't think kindly of increasing the minimum wage because it is going to do—supposedly according to them it is going to create unemployment.

On the other hand, the minimum wage was at its peak value in 1968 when its value in current dollars would have been \$6.49. Unemployment in 1968 was 3.6 percent, a rate that would send the Federal Reserve ballistic today.

So, Dr. Tyson, I congratulate you, and I would like to have you speak a little bit more to the impact of the changing salary base and what that is doing to millions of Americans who are working full-time. I have to indicate, the problem goes way beyond the minimum wage.

In our area a recent study indicated a livable wage was around \$20,000, and we discovered in the State of Minnesota where the unemployment rate is 3.5 percent, that over half the jobs don't pay a livable wage. The minimum wage even with the increases is far from a livable wage in many parts. As you look at the fundamental problems we face in this country, I think if we want to deal with the issue of crime, it clearly relates to the concentration of poor people in certain neighborhoods. They have no choice of where to live because affordable housing doesn't exist beyond them.

When you look at the capacity of rural communities to expand, the problem in Minnesota is many of the rural communities have expanded industries, they have jobs paying \$15,000–\$20,000, but there is no housing for new workers. The cost of a new house exceeds the capacity of the people at that wage rate to buy a house, so we have a Republican Governor suggesting a new State housing program to buy down the cost of housing in rural communities so these communities can continue to expand.

So I congratulate you on that movement forward and I would like to have you visit a little bit more about this question of what has happened with the wage base in this country because I think that is so crucial. I think it is also related to budget issues because if we are unwilling to deal with the wage base, if we are unwilling to pay people who are working full-time in this country and working very hard for salaries that they can live on, clearly government will be called on to supplement those kinds of salaries in our economy.

Ms. TYSON. OK. Well, perhaps what I should do is start again by how we came to make a decision on the minimum wage. I think if you look at the country's economic indicators over the past 20 years, 15 to 20 years, a few of them really stand out. It is clearly the case that the deficit problem that is getting so much attention today and the debt problem that is getting so much attention today

really the time of explosion was the 1980's, and you do see there trends which, frankly, we inherited that we had to do something about.

The deficit-to-GDP ratio on a rising course, not a stagnant or declining course, the debt quadrupling and increasing dramatically as a share of the economy. Clearly those were trends that had to be brought under control, and we view both the OBRA 1993 and the 1996 budget as doing that, as bringing those under control. If you look at the deficit-to-GDP ratio, it is now on the decline.

It is not just that we have stabilized it at some much lower rate, but if you look at our projections and you look at them not just through 2000 but through 2005, the deficit is coming down relative to the size of the economy. This is a complete reversal of the trend we inherited.

On the debt side, the debt-to-GDP ratio rose dramatically during the 1980's, actually looking at figures you can't believe it, 10 percentage points in 5 years, another 12 percentage points in the next 6 years. Those are amazing numbers.

We undid in one decade all the progress the country had made since the end of World War II at bringing the debt burden relative to the economy down. It was all undone in one fiscal fling of the 1980's, and we had to get that under control, and we have. The debt-to-GDP ratio is basically now stabilized.

So is there more to be done on those problems? Yes, there is more to be done on those problems. We believe the next sensible step to work on them is in the entitlement area through health care reform. But something else was going on during those 15 to 20 years that was also very disturbing.

That is that there really was a pronounced decline in earnings at the bottom of the income distribution. Now, a male high school graduate saw his real hourly wage decline by nearly 20 percent. The median worker, the worker right in the middle of the working income distribution, saw their hourly wage in real terms go down by 6 percent.

American workers were not making enough in terms of nominal gains to make up for inflation and be better off. All during that time period we also see this tendency toward greater inequality.

One economist in a private consulting firm, macro consulting firm put it that in the 19—you first saw the top 40 percent gain at the expense of the bottom 60 percent, but in the 1980's and 1990's you saw the bottom 80 percent seeing their incomes decline. Those are very serious long-term problems.

The truth is these are very hard problems to solve. They are not amenable to any simple public policy fix, like moving the deficit down this amount by this year. They have to do with changes in technology.

What is happening here is as technology changes, people do not have the education and skills to use the technology, the technology shifts away from them. They are no longer demanded, their skills and services are no longer demanded, they cannot earn a wage that is a living wage, a livable wage.

Now a particular part of this increasing disparity, however, was by economic studies, by a whole host of economic studies was the result of an erosion in the minimum wage. The minimum wage

does in fact establish a floor on incomes, and that floor, when it eroded, and it is now headed to a 40-year low in purchasing power terms, when that eroded that did contribute to the rising inequality.

In fact, it probably contributed to about the order of 20 percent for inequality among male workers and probably about a third of inequality among female workers. Female workers incidentally make up about two-thirds of the minimum wage work force.

In addition, what has happened over the past 15 years or so is that contrary to the traditional, old-fashioned view that minimum wage workers are high school students who basically are making some extra money on the side, two-thirds of the minimum wage workers are now adults, they are over 21, and they are earning on average half of their family income, so we believe that since this income disparity or earnings problem at the bottom of the income distribution is so important to American society, that one thing public policy can do is make an adjustment in the real value of the minimum wage, and furthermore the evidence is very powerful and convincing, and I can give you citations galore that an increase in the minimum wage of the magnitude that we have proposed will have no significant or even discernible effect on employment. What it will do is it will increase incomes for those who need an increase.

Mr. SABO. Thank you.

Chairman KASICH. Congressman Miller.

Mr. MILLER. Thank you, Mr. Chairman. You were down in my district in December.

Ms. Tyson's parents are my constituents, by the way. She was down visiting my district as well. I get a lot of members in Congress coming down to my area, Sarasota, Venice, we welcome everybody to come down. This weather is what would make you have more appeal to return to my district.

Ms. TYSON. Nice area.

Mr. MILLER. As you are aware, I would say the majority of Members of Congress were disappointed in the budget proposals of the President, that it really was an abdication of economic leadership that he should have shown. Even Mr. Sabo was saying he was disappointed that there wasn't enough deficit reduction in there. Mr. Sabo just made a comment basically that this is really a political budget rather than a real budget, that we are not going to show—

Mr. SABO. I am not sure I said that.

Mr. MILLER. Well, what you were saying, as Miss Rivlin was with us on Tuesday was saying to the effect that, well, we are not going to show our cards until you show your cards attitude, that we are not going to show entitlement cuts because we are going to let you do it anyway.

To get back to the question, because of that is this issue of the deficit, and, I mean, you keep stressing how important it is, the relative size of the deficit. But looking at it, the size of the deficit is basically a \$200 billion number for a number of years out there. If you had your druthers you would like to see it on a glide path toward zero, right? Or do you justify that it is OK to keep that \$200 billion deficit?

Ms. TYSON. What I would like to say is I would like to see further progress made on government spending through health care reform, that would clearly have—the OMB, the budget document shows very clearly, and we actually picked it up in the Economic Report of the President because I thought it was such a compelling document chart, there is a chart which shows very clearly that if one could get the rate of growth of health care spending on line with the rate of growth of the economy, in fact the budget could be balanced early in the next century, so it shows pretty clearly what you could say in other words the real problem of growth in spending here that we have to address is health spending. On the other hand, I have said as clearly as I can possibly say, I don't think you can handle that in the absence of some system-wide reform effort.

Mr. MILLER. Do you think we should have a glide path toward a zero budget, balanced budget, I mean?

Ms. TYSON. I think we should have a glide path toward a balanced position, but I do not ascribe and have never ascribed to any particular year. If you are going to say do I think we should have zero by the year 2002, I would think—in order for me to judge the economic effect of that, I would need to know how you propose to do that. You see, the effect on the economy is not just the size of the deficit, it is what you do to adjust that size.

Mr. MILLER. Is deficit spending OK, then?

Ms. TYSON. No, no, I did not say that. What I said was that if you want to propose to me—if you want to ask me do I think the economy would be better off in 2002 with a balanced budget position, I would say to you I would want to know what you were going to do to achieve balance. Clearly you would have to agree with me because one way to achieve balance that you might propose to me is a major increase in taxes, and I might say to you that is clearly not good for the economy. It might balance the budget, but it wouldn't be good for the economy.

Mr. MILLER. As an economist, weren't you a little disappointed in the fact that the budget didn't have a glide path toward balance?

Ms. TYSON. I want to make something very clear here, and it was probably noted in some newspaper articles, I think this is a good budget. I think this budget does a number of important things. It is engaged in doing some middle income tax relief, which I think is important, it is engaged in doing some important increases in some areas of spending like education and training.

Mr. MILLER. What about the deficit issues?

Ms. TYSON. As all things in economic life, there are tradeoffs. This as a package is what I have called a balanced package. This is not from my point of view a political document. This is a balanced package that is a responsible budget for the United States.

Mr. MILLER. Let me switch to one other subject here in your comments, and that is the role of investment, and that you make the statement that worthwhile public investments are very important, and this is always a discussion of an investment side of our budget, a capital budget as such, and then there is a scary thing, as a former businessman, I kept a capital budget and all that, that is part of the argument, State governments look at it differently, use bond financing and such.

Part of the problem is how do you define investments. For example, in your comments, you say, for example, AmeriCorps is an investment. I can understand the income contingent student loan program as being maybe an investment. It is hard to say why not increase that, why is AmeriCorps an investment, and then under that type of definition, using AmeriCorps as an investment, because it is helping volunteerism, if that is an investment, I mean, almost everything we do is investment, and so it is kind of scary is how you think that—the items you choose for investments make it such a broad definition that it is kind of an encouragement for big government programs and big spending programs, so define investments and why—

Ms. TYSON. I think you raise a good point, and the point is if one were to move—as you have indicated, many States that have balanced budget amendments also have capital budgets which allow them to borrow. That was not part of the House budget amendment proposal which passed, I understand, but it is the case, as you point out that, if one moved to a world in which the Federal Government, like State governments, and businesses, had a balanced operating account but a capital account which allowed for borrowing, one would have to define capital investments, and that would be something that one could have a legitimate debate about.

I happen to believe that—we have a chapter in the upcoming Economic Report of the President which is coming out on Monday, and it goes through the various parts of human scientific and physical capital and their contributions to growth over time, so we view human capital as very important, and our view is that frankly some AmeriCorps is important as just another way for some people to get some support to invest in their human capital.

They can do it through their Pell grants, their student loan programs, our middle income tax deduction for education and training is another mode, and AmeriCorps is another mode. AmeriCorps has other features, it is a volunteer program in some respects. It is encouraging people to reach out to their communities. It has an important aspect of responsibility as well as the ability to earn money toward an education, but I would think of it in the context of just one of many routes we have put in place to encourage people to invest.

Mr. MILLER. Just a concluding comment, my time is up.

Chairman KASICH. Your time is up.

Mr. MILLER. That is the scary thing, when you talk about AmeriCorps as an investment, I understand Pell grants and other ones but that is the problem with the investment budget.

Chairman KASICH. The gentlelady from New York, Ms. Slaughter.

Ms. SLAUGHTER. Thank you, John. I am going to speak very quickly.

I have three things I want to ask you, Dr. Tyson.

First, there is a lot of concern that you are not on the glide path here for 2002. I remember one year we got a budget from the executive only giving us the spending side and left us to find all the revenue. We called that a black box. You have got a nice little budget there, and we will do right by it.

John Kasich is one of the most honest people I know and he is a good friend of mine, and if he is going to do this and get us on this glide path, I know that he means what he says, but I would like your opinion.

I know one of the things that we expect is that there will be a repeal of the tax on the top 2 percent wage earners in the country, and that we will go back to Starwars and increase again defense spending.

Would you give me your view on what that will do for the deficit?

Ms. TYSON. Well, I haven't seen the exact projections. What I will say on this is that I don't—we presented a whole package and our whole package says pretty clearly, this is the balanced approach we have to tax relief on the one side, increasing defense spending a little bit on the other side, bringing the deficit down on the other side. This is our balanced approach.

So far we don't have any alternative that we or the American people can judge. I mean, at times you hear that if the tax package is what is going to move first, and we now have independent estimates of that from the Joint Committee on Taxation, then first of all, all the spending cuts that can be found are going to have to go for the \$700 billion of lost revenue. Then if you are going to add on however much more for Starwars, let's say \$750 billion more, that is \$750 billion, you haven't touched the deficit.

The deficit has not moved, and then if you take off something like a—the Social Security change that we introduced in OBRA 1993 which actually brings in some additional revenue, you actually cause the deficit to get worse.

So I just don't have—we have a very clear plan and we introduced a very clear plan. When the administration took office in January 1993, 27 days after it took office, we had the whole plan before the American people, and I think what I am concerned about is I hear a lot of talk about how there is disappointment in the amount of deficit reduction in our plan, but so far I have not seen a single action to—or a single detailed proposal to give any more deficit reduction.

All that is really on the table right now is a promise to balance the budget by a certain year. No specifics, and a promise to reduce tax revenues to the U.S. Government by \$700 billion over 10 years. That is what I see.

Ms. SLAUGHTER. Well, one other thing I wanted to try to bring out and elaborate more on what Marty was saying, there is no question that in America, that it is not just the poor. It is not just the minimum wage workers.

People in median incomes, all have children who graduated from college, beautifully educated at a high cost who can't find a job. I wonder if you could give me the latest figure on the wage scale of America as compared to workers in other industrial countries. We used to be eighth, but I suspect we have probably fallen behind that.

Ms. TYSON. You know, I can't give you that right now. I can get that for you. It is very sensitive to exchange rates, conversions from dollars to other currencies. I think what I can say is the following: I did this for—there was a jobs conference in Detroit about a year ago, year-and-a-half ago and we put together the numbers

then, and if you again look over a 15-year period, and I think these wage trends you really have to look over a certain period of time to see what has happened, the United States stands out in two ways.

We had the slowest rate of growth of real wages of any of the advanced industrial countries with which we compare ourselves, and we also had the greatest increase in wage dispersion. That is, we were the country that saw the greatest increase inequality, the slowest average growth, and so when you put those two things together, we were also the country that had the greatest decline for people at the bottom 40 percent, and those trends are longer-term trends, and I would be very surprised if 1 year of good macro performance, 1994, did very much to change those trends.

Ms. SLAUGHTER. In my district in Rochester, NY, where we have been noted for over a century for our high technology, I have one of the highest skilled work forces in the country, and as a matter of fact, the average worker in my district produces about \$130,000 worth of production a year, and yet, in the city of Rochester, 76 percent of the children in the city school district are eligible for free lunch and to me that demonstrates very graphically what has been happening.

Have you given any thought to what seems to me to be one of the problems in employment, and that is, too many people working temporary jobs, considered temporary jobs with no benefits even though they worked full-time for 4 or 5 years in the same job?

Mr. SHAYS [presiding]. Short answer because the lady's time is up.

Ms. SLAUGHTER. Are the number of people who are doing contract work responsible for their own Social Security and what has that done to wage earning?

Ms. TYSON. Well, the short answer to that is that that is also a longer-term trend in this society, that the number of workers receiving benefits on the job, the percentage of workers receiving benefits has gone down.

I want to emphasize, that was one of the things that we were trying to address through health care reform. As more and more people are dropped from private sector coverage in terms of benefits, we need as a society to think about something to do to make sure that health care is available to such people.

Ms. SLAUGHTER. Thank you.

Mr. SHAYS. Thank you.

Mr. Bass, you have the floor and then Ms. Roybal-Allard will be next.

Mr. BASS. Thank you, Mr. Chairman.

I think Chairman Kasich really hit the gist of what has been going on this week on the head. As I am a relative newcomer around here, it is becoming plain to me that what we are really doing is playing a game.

The administration is putting one card down on the table and asking for us to do—lay down a card, and I guess I can accept that as part of the process of moving toward a consensus, but I also think that the administration lost what might have been an extraordinary opportunity to take this whole spending problem by the reins and really do something substantive to deal with it, and I

guess my overall question to you, Dr. Tyson—by the way, I appreciate your appearing here this afternoon—is do you really think as an economist that a budget that is introduced by the President that essentially does nothing to deal with the entitlement issue at all contains increases in defense spending, a tax cut resulting in deficits that are either the same or greater over a period of time?

Is that your sort of general opinion, the right approach to the budget policy over the coming years?

Ms. TYSON. I think I have said clearly that I believe this is a balanced budget package, balanced in the sense that it is trying to deal with many goals and the tradeoffs between those goals. We believe it is important to give some middle income tax relief at this point. The cost of our tax relief is \$63 billion over 5 years versus \$200 billion in the House contract proposal.

So we believe we have given some fiscally responsible and very targeted tax relief. We think that it is important to continue to spend on student loans and on Head Start and on the National Institutes for Health and several other investment areas, so we wanted to make sure we continued to do that. We think it is important to continue on the course of reversal which we brought into the U.S. economy on the deficit.

Remember, you have to go back 2 years ago to what we confronted. We confronted estimates of deficits in the order of \$400 billion. We confronted a deficit-to-GDP ratio at 4.9 percent. We took those projections and those numbers and we took courses which were going up and brought them down.

Now, we have made a lot of progress. There are other things we want to accomplish, so this is balanced in terms of competing objectives, and yes, I do think it is a good budget for the U.S. economy.

Mr. BASS. I guess this further question, this may not be something that you can address directly, do you think that this budget represents every last dollar of spending cuts that you can get out of either discretionary or mandatory?

Is this really your best effort?

Ms. TYSON. I actually think that, as I said clearly before, the kinds of investment programs I was mentioning of course are in the discretionary budget.

One thing that may not be well understood but should be understood is that we are all operating under a world of discretionary caps. Real spending on the discretionary side is falling year after year after year at 3 percent. Real discretionary spending as a share of the economy is at a 30-year low.

On the issue of entitlements, I have said very clearly, no, we need to do more. I believe we need to do more in the area of entitlements, but I refuse to define the problem as some abstract entitlement problem.

This is a problem for the medium term of reforming the health care system in such a way that one can gain some slowdown in the rate of growth of Federal health care spending without cutting services and taking the cost of treating sick people and putting that onto the private sector in some hidden way.

Mr. BASS. One last question. Do you have any position on the concept of block granting of welfare programs to the States?

Ms. TYSON. My concern—I mean, I don't want to state an administration position here because there are discussions going on. I am going to give you my concern as an economist.

My concern as an economist is the following: Welfare programs play an important safety net function in a market economy. Market economies are by their nature cyclical. They have ups and downs. No one can predict when the next slowdown in the U.S. economy will occur, when the next recession in the U.S. economy will occur, but one can predict that when it does, more and more working Americans will find themselves needing some temporary help through welfare. More and more Americans will find themselves needing some temporary help through food stamps.

If you have a block grant world, you can't increase those expenditures to offset the slowdown effects and their effects on working families. That is why I am concerned about them. I am concerned because I think those kinds of programs should have a counter-cyclical ability which block granting would take away.

Mr. BASS. Thank you.

Mr. SHAYS. Ms. Roybal-Allard, and then I am going to defer my questions and you will be next, Mr. Largent.

Ms. ROYBAL-ALLARD. Welcome Ms. Tyson.

I would like to get back to the income distribution issue. You passed out a chart, which is Chart 1, that graphically shows the share of money distributed to the 20 percent of the families in the highest income bracket increased while the shares to the remaining 80 percent fell between the years of 1973–1993.

Can you elaborate a little bit on how the administration's budget plan will help change income distribution pattern?

Ms. TYSON. Well, look, I want to start out by saying one thing. This pattern has been with us for a long time. That is a 20-year period. There are no simple—single explanations.

One clear-cut explanation is the training, education, and skills explanation. Another explanation is the erosion of the minimum wage. Another explanation might be—or another approach to helping to solve the problem is to try to give some tax relief for those families which really have not, in the economy, been able to earn any rising income in real terms.

So I would say what we are trying to do is a number of things at once. We say, well, we can do something on tax relief, but we want to also target that tax relief in such a way that someone who is sitting somehow in the second or third quintile might use the money to get their child in education to get them finally into a better earning path for their future.

So tax relief is an important part. Minimum wage, of course, isn't in the budget, is an important part and the whole host of education, training, and children's programs which we have fought for and will continue to fight for is another part of the program.

Ms. ROYBAL-ALLARD. Contrast the President's budget plan with the Contract With America. How does that play into this?

Ms. TYSON. Well, the Contract With America, I am not sure how to make the context, because first of all, the Contract With America, you have to ask the question, what would be the effect on the deficit?

One of the things we need to engage in is when I hear Members of the Congress talking about how our plan doesn't go far enough on the deficit, but then in the same meeting or in another meeting or another presentation are defending the \$700 billion of lost revenue from the contract proposal, I say to myself, well, is it going to be more on the deficit or more on tax relief.

The point is that to help the American economy, what you want to do is make sure that there isn't a tax proposal that will explode the deficit. Those are the things that can really explode the deficit. A \$700 billion tax package that is not paid for can explode the deficit pretty quickly.

But also the other thing about that tax proposal of course is that the lion's share of the tax relief goes to the top 20 percent of the income distribution. If you take the capital gains tax relief proposed, which in its lost revenue effects is the equivalent of our entire tax package altogether, 50 percent of that goes to the top 1 percent of the income distribution and 75 percent of that goes to the top 10 percent of the income distribution.

I don't know what those buzzers are, but I assume they have nothing to do with me.

Mr. SHAYS. What we are going to try to do, excuse me for interrupting. We have a vote, but we are going to allow you to keep going so we will have some of our members vote and come back.

We hope we can do that.

Ms. TYSON. So long as I know what is going on, that is fine.

Ms. ROYBAL-ALLARD. I have heard some arguments that there are limits to the amount of deficit reduction that the economy is capable of withstanding without hurting economic growth, and if I understood you correctly, you said that as we move toward deficit reduction and a balanced budget, that it should be balanced in a gradual way.

Could you elaborate a little bit on what the dangers are of moving too quickly toward a balanced budget?

Ms. TYSON. Yes. The dangers are—come from the fact that any cuts in government spending or any increases in revenue, and I know they are not under discussion, so let's just take the cuts in government spending.

Cuts in government spending, their immediate effect upon the economy is contractionary. Essentially if the government stops spending on a defense plant, for example, jobs are lost. We saw this in southern California very dramatically. So there is a contractionary effect.

If the government stops supporting people on welfare or stops supporting people on unemployment compensation, they don't have the same income they used to have. They can't buy as much as they used to buy. That is a contractionary effect.

Now, what is supposed to happen and indeed what does happen if you do it gradually is that as you reduce the deficit, interest rates, that does have a downward pressure on interest rates and interest rates will make an adjustment and that will be a way of stimulating private sector spending.

The problem is, you don't want to go so dramatically at any one point on contracting the economy through fiscal policy that you put

a lot of pressure on interest rates. Interest rates may or may not respond as you want them to respond in the time you give them.

So it is just an issue I would say of downside risk, and it means that progress on the deficit should be sustained and gradual rather than sort of dramatic and concentrated in time—in a short period of time.

Ms. ROYBAL-ALLARD. Thank you.

Mr. SHAYS. I took away from your time, but are you——

Ms. ROYBAL-ALLARD. That is fine.

Mr. SHAYS. Mr. Largent.

Mr. LARGENT. Dr. Tyson, thanks for coming.

In some respects, I feel like we are shadow boxing. It is like shadow boxing because, as you said, and I think one of the most enlightening things you said, and I am coming to this realization, that as an economist, it is not a science; it is art.

And like art, the beauty is in the eye of the beholder. And so, you know, some of us may like what you say and some of us may not like what you say, but the bottom line is it doesn't matter because we can pull in just as many economists that can say the opposite of what you say, so you can't hit us because you are an economist and everything is relative and we can't hit you because you are coming here with a proposal, not a budget.

Ms. TYSON. Could I say one thing?

Mr. LARGENT. Would you say that this represents a glide path to a balanced budget? This is the deficit, and you can see the lines.

Ms. TYSON. I would do that relative to the size of the economy for all the reasons I suggested.

Mr. LARGENT. A glide path is a word picture that is actually used in aviation to show how an airplane comes down to——

Ms. TYSON. There is a glide path.

Mr. LARGENT. It does come down. I would just say if that is the glide path that the President proposes, that you are going to run out of fuel before you hit touchdown, and it is unacceptable.

Now, one of the comments that you made—I mean, in your written statement is—I mean, either I am ignorant or this is so totally disingenuous, it is hard for me to even read this, and then to hear your comments today saying things like deficit reduction is the linchpin of your strategy; and that your budget proposal is an important contribution to the living standard for the future of this country, which totally runs opposed to what we have been hearing from everybody else.

And then to read the second paragraph in this where it says, "Last year we witnessed an economic payoff to the tough fiscal decisions embodied in the OBRA 1993."

Now, Dr. Reischauer himself sat in here and said that economic policy oftentimes will not be reflected until many years later, and you are claiming an economic payoff for something that was enacted in 1993 that occurred in 1994, which to me is sort of at the height of hypocrisy, in my opinion.

But the couple of questions that I wanted to ask you, and again, this goes back—one more statement, then my only question. I have got statistics here, and we can have a dueling battle of economists' statistics, that says in the 1980's, you claim, 80 percent of real income went down, and yet the statistics that I have is the real aver-

age income of U.S. households rose 15.2 percent. This is 1980 to 1989. Real per capita disposable income increased 18 percent and real incomes for every quintile rose from 1980 to 1989.

So, again, you know, this is my statistics and you have got your statistics and they are both economists' statistics, so they don't really matter. So there, we have shadow boxed.

My question is this: Why not use the strength of the economy that we are touting today to balance the budget and pay off the debt? Why not use the strength of the economy that we have going right now to reduce the deficit? To refuse doesn't make sense to me.

Ms. TYSON. Well, I am not sure I need to answer the question because you have already stated that you are not going to believe anything I say.

Mr. LARGENT. Well, you are right.

Ms. TYSON. You have called me disingenuous, you have called me a hypocrite, and I think I really don't need to answer the question.

Mr. SHAYS. I would like you to answer with all due respect his last question in particular.

Ms. TYSON. Was there all due respect in how that question was posed? Was there due respect in how the question was posed?

Mr. SHAYS. I listened to his question. I think he was trying to say something that you interpreted slightly differently, but this is the question though. This is now a stronger economy and it is an excellent question.

Isn't this the time to get those deficits down more, I think is really the key to the question.

Ms. TYSON. I will answer the question——

Mr. LARGENT. Let me interrupt for a second. I do apologize for my tone, because I have been sitting here and listening to you and I have to tell you, I have been getting agitated, and I apologize for that.

Ms. TYSON. I did not say to anyone on the committee they were disingenuous or hypocritical. To the extent that I have those views, I restrain myself from making them in a public statement in a hearing.

Mr. SHAYS. The gentleman apologized, but his question was an excellent question.

Mr. LARGENT. I didn't say that you were disingenuous. I said either I am ignorant, and maybe I am, or this is disingenuous.

Ms. TYSON. I think it was fairly clear what you were implying, but let's go on.

Mr. SHAYS. No, not go on. Please answer his question.

Ms. TYSON. No, no, no. I said let's go on. I will answer the question because you posed it. I think that, again, it is an answer which I have given a number of times, but I will give it again.

I think that our view is that there are competing things that need to be done to make the lives of working Americans better, and they are not simply reducing the deficit by a certain amount by a certain date.

They are better put as targeted tax relief, investing in education and training, and meaningful health care reform, and we would like to work with the Congress on meaningful health care reform and that would be a way, both to bring the deficit down over time,

and to give working Americans access and secure access to health care.

Mr. SHAYS. Gentleman like a follow-up question on that?

Mr. LARGENT. The only thing I would say is, again, I apologize. I shouldn't have done that, and I am genuinely sorry, but it is frustrating to me because, in my opinion, and again, it is my opinion and it is worth what you paid for it, which is nothing, that the deficit and the continuing growing national debt is a threat, a genuine threat—

Ms. TYSON. I agree.

Mr. LARGENT [continuing]. To my children's future and that is why I am here.

Ms. TYSON. I agree with that and, you know, I would have to say that it was one of the reasons that I agreed to go from academic life to work with President Clinton.

I had worried about this problem all during the 1980's. I had watched as the country took all of the progress on the debt that it had made since the end of World War II and unravel it in one set of irresponsible fiscal policy decisions.

I wanted to do something about that, and that is why I came to Washington to work with President Clinton. We have done something about that. You should recognize that we have done something about that. We can talk about how much more should be done and how it should be done.

Mr. SHAYS. I would like a follow-up.

I am sorry to interrupt you only to say that we have 4 minutes to run over there and vote. Mr. Radanovich will be coming maybe as I leave. If you need 4 or 5 minutes, if he gets here, we can just start up and continue the hearing.

Sorry to interrupt.

Ms. TYSON. That is fine. So we are going to have a recess?

Mr. SHAYS. We will be in recess until called again.

[Recess.]

Mr. SHAYS [presiding]. The hearing is reconvened and thank you for waiting.

Mr. Radanovich.

Mr. RADANOVICH. Hi, Dr. Tyson.

Ms. TYSON. Hello.

Mr. RADANOVICH. Newly elected Member from California. I just wanted to comment briefly and get your opinion on some of the things that you were talking about as far as what the President views being the problem here.

It seemed to me and quote me—or correct me if I am wrong, but it seemed to me that the issue with the President was that if he could solve the health care problem, then everything else would kind of take care of itself or that that at least is the first step to solving the problem, and I think that that—I would like to contrast that with what I think is the problem and I think what I have, at least coming off the campaign trail in these recent elections, what I heard Americans at least say to me, and I don't want to speak for the majority here in Congress, but I have an idea that that is pretty much the same objective that we are after, and that is that the big problem is not that—not the health care issue, but downsizing Federal Government way beyond even the issue of a

balanced budget amendment, what is more important, is using bureaucracy to pay off the debt and make up for the deficit.

And you know, I think the dialogue that we would like to hear from the President would be issues of privatization and local control as a means of doing that. You know, I feel like we are in the same town, but we are in different ballparks here and until we get on the same page, we are not getting anywhere.

And so I don't have the economic background that you do. You are a very sharp person and you have got the numbers, but the basic foundation of this argument is, we are not even in the same ballpark here, and I think that I would really like to stress that.

What I would like to do is move beyond the health care issue, even move beyond the balanced budget amendment and get to, how are we going to downsize Federal Government and how—what can local agencies do, local governments do in place of what we do here in Washington?

Because quite frankly, this is very nice to hear—we have concerns about taking care of—Republicans are accused of wanting tax breaks for the rich and Democrats tend to want to be the vanguard of the poor, and all that discussion is really nice, but unless it comes from the local level, we are not going to get anywhere with the problems that are in the country right now.

And I would get beyond health care, get beyond even the balanced budget amendment and get down to what is really going to solve this problem and that is downsizing what we do here in Washington.

That is my basic comment. I mean, as far as I am concerned, we are spinning wheels and until we can—if the President wants to engage in some dialogue in this area, I would like to see that be the mission of his Budget Committee as well.

Let's get down and talk turkey, but we need to get in the same ballpark first.

Ms. TYSON. I think I must have created a misimpression and I do want to clear it up in that case.

The President, from the beginning, and he early on appointed Vice President Gore to be in charge of efforts of downsizing Federal Government, of course we are paying for our tax cut that we have proposed by continuing downsizing of several agencies.

We have proposed consolidations of 271 programs into 27, eliminating 131 programs altogether, major downsizing of the Department of Transportation, Department of Energy, and HUD. I think that we are—very much would like to work with the Congress on the issue of the correct route to downsizing the discretionary spending of the Federal Government.

The reason I wanted—I talked about health care was simply because discretionary spending, the kind of downsizing you are talking about, is at this point only about 17 percent, 17 percent, of total Federal spending. You cannot get the kind of deficit path which many here would like to see over the long-term simply by working on that fraction of the Federal budget.

You have to go to other parts of the Federal budget and the part that is growing faster than any other component over the next 10 years is health. So I really agree with you completely on the downsizing issue. We have made a series of proposals that are be-

fore this committee and before this Congress, and would certainly like to cooperate on those and other ideas you might have.

Mr. RADANOVICH. And the only other thing I want to comment on is the fact that we are not going to do this unless we make some—a basic assumption on human nature, and I think the point that I want to make is that I believe, and I would like to ask you the same question as well, that when people are given tax relief, they are going to be more productive and that will result in more money in the Treasury, and it seems like, and I am talking—and I am speaking to you as an economist because I grew up with economists, the point that I am trying to make is that economists won't make that basic assumption, and I think economists won't—don't have the guts to make that assumption and then build numbers around it that they are going to have some confidence with and go out and sell.

When Alan Greenspan comes to us and he says, if you dare do dynamic budgeting, then Wall Street is going to lose all confidence in government and their budgeting ability, and yet there is some significance to dynamic budgeting, and what I am trying to say is that economists better start thinking about coming up with some hard numbers that are based on that premise that when people are given tax relief, they are going to be more productive and that is going to have an effect on the Treasury.

Mr. SHAYS. And if you could give a short answer to this because the gentleman's time is up and then I will ask Mr. Browder.

Ms. TYSON. I would say two things. No. 1, I agree in this case. I don't usually express agreement or disagreement with Alan Greenspan. In this case, I have read his testimony and I have written in the Wall Street Journal similar ideas, so I agree with his view that we don't really know enough at this point to do dynamic scoring on the budget.

You are really, though, asking a question which has two parts. It is quite—economists recognize—all economists would agree that tax policy creates incentives or disincentives depending upon what tax policy there is. There is not a question about that. The question is: Is the incentive effect big enough to actually show up in sufficient amounts and change government revenues to pay for the tax cut.

So you might conclude that there are estimates out there that say, yes, if you cut capital gains tax, you will get an effect on savings and investment. Now, some of the numbers are very small, suggest a savings and investment effect is very small. Some suggest it is a little larger. Very few of those numbers would suggest the effect is large enough to actually increase government revenues. So the incentive effect doesn't tell you what the effect on Treasury receipts are.

Mr. SHAYS. I am losing control here a little bit.

Mr. Browder.

Mr. BROWDER. Thank you, Mr. Chairman.

Dr. Tyson, you can lean back and have a drink of water and relax for a minute because I am going to give you a wee bit of unexpected pleasure, a wee bit.

Ms. TYSON. He has to deliver on this promise.

Mr. BROWDER. I voted against the President's budget last year. I didn't want a disaster. I didn't think he did enough on deficit reduction. I voted against it.

I have already registered my criticisms of the budget that has been presented so far this year and you of course are hearing a lot of complaints from those of us on both sides who are disappointed. But I want to take a moment to say that I really appreciate what your administration—something that your administration did.

The President had a plan for addressing the budget deficit, among other problems. I didn't like the way he did it, but he had a plan. He passed that plan, against—over my vote, and he achieved deficit reduction, and I congratulate your administration for doing that.

Many of us up here would like for him to go further, but he did something that I think is remarkable in that—not compared to what we want him to do, but he did something that his predecessors had not come close to doing and as one who has voted—voted against his budget and is not pleased with this one, I just wanted to take this minute not to grill you, but to congratulate the administration for doing that.

Thank you.

Ms. TYSON. I thank you.

Mr. BROWDER. Mr. Chairman, I yield back the balance of my time.

Mr. SHAYS. Thank the gentleman.

Mr. Smith, you have the floor.

Mr. SMITH OF MICHIGAN. A couple questions on what you think should be our goals as far as ultimate budget.

Do you believe that it is reasonable to have a target out there someplace where we do live within our means in terms of revenues matching outlays?

Ms. TYSON. I do believe that except I want to make a distinction. The distinction is I do not—I am strongly opposed to an amendment or any other constraint that would require a year-to-year balance because I believe that would make it—it would require this body of Congress, working with the administration, in a downturn in the economy to make the downturn worse.

Mr. SMITH OF MICHIGAN. But your answer was yes, you think that we should target and try to reach that goal?

Ms. TYSON. I would say, as an economist, I believe that we should be trying to balance the budget approximately over the business cycle or balance the structural budget deficit.

Mr. SMITH OF MICHIGAN. Should our interest on our public debt be going up faster than the GDP?

Ms. TYSON. The interest on the public debt is not going up—

Mr. SMITH OF MICHIGAN. As a percentage of GDP.

Ms. TYSON. It is not going up faster. We have stabilized that. That has changed. The interest—

Mr. SMITH OF MICHIGAN. Whoop3, now wait a minute.

Ms. TYSON. Interest as it relates to GDP is not rising, interest payments by the Federal Government.

Mr. SMITH OF MICHIGAN. Maybe I need to revisit that. It appeared to me that it was going up as a percentage of GDP. It is

by far the fastest growing—it is the only growth industry in the budget.

Mr. SHAYS. Would the gentleman yield a second? Our question I think relates to the fact that we are paying higher—we are paying—your estimates before were that we wouldn't be paying as much in interest that we are having to pay now, about \$235 billion this year alone in interest on the national debt.

Is that what the gentleman is referring to?

Mr. SMITH OF MICHIGAN. That is part of it, but also I am referring to the projected interest on the debt by the year 2000 and two things are compounding the problem.

One is in 1993, there was a claim from the White House that the new economic recovery package was the cause of interest reductions, and now I don't know exactly what we say is the cause of increased interest rates, but I do hope we both agree that the creative creativity in getting rid of some of our long-term notes and transferring them to short-term notes at a time when the interest rate was low was the wrong decision, at least as we look back on it, inasmuch as our short-term interest rates are now creating what to me is an overwhelming vulnerability of those higher growing interest rates.

Ms. TYSON. OK, I guess what I would say about—

Mr. SMITH OF MICHIGAN. I know. I just thought—

Ms. TYSON. You said many things that were correct.

Mr. SMITH OF MICHIGAN. I just thought where our differences are on increasing as a percentage of GDP. I am talking about interest on the gross national debt, including the interest we owe the Social Security Trust Fund, and including the interest that we owe the Highway Trust Fund and everything else, and apparently you are talking about just the private interest—the private debt, interest on the private debt.

Ms. TYSON. I am actually talking about what is referred to as a net interest when you take into account interest on all—you sort of look through all the programs, look at the interest costs, look at interest payments being made to the Federal Government and you get a net number, and the net number, after the interest payments coming out and interest payments going in, in 1995, the estimate is that net interest will be 3.3 percent of GDP. In 2000, it will be 3.4. So it is not that there is no change, but that is the change.

Mr. SMITH OF MICHIGAN. But still we are talking about, in the same parameters, we are talking about, do you agree that the interest rate in this budget, the interest on the gross national debt, if—assuming that we are going to pay the interest on what we are borrowing from the Social Security Trust Fund and other trust funds of government, is going to be \$339 billion in 1 year, which represents 25 percent of all—I got it out of one of your budget books. So check that out with your staff.

Ms. TYSON. I can check the number for you. That is—I think—

Mr. SMITH OF MICHIGAN. But we have got to assume that we are going to pay the interest on the Social Security Trust Fund.

Ms. TYSON. We will pay—the U.S. Government will pay whatever interest it owes. That is certainly the case and it will pay the interest it owes on whatever account it owes it from. The issue is, is

that burden of interest payment compared to either what the government is spending totally or the size of the economy growing.

If you look at——

Mr. SMITH OF MICHIGAN. The point is, does it make us very vulnerable to swings in the interest rate.

Thank you.

Ms. TYSON. Yes. The truth is that if you inherit a debt-to-GDP ratio of around 51 percent, which our administration did, that change in interest rates do affect the government budget. No doubt about it.

That is one of the reasons why a world of a balanced budget amendment would be a very tough world to live in because if interest rates rise because the Fed takes an action or because global events push interest rates up, the deficit will automatically get worse and you will have to come in——

Mr. SHAYS. The gentleman's time is expired.

Mr. SMITH OF MICHIGAN. If we pay the debt down a little bit, then it won't make us so vulnerable.

Ms. TYSON. We will stabilize the debt.

Mr. SHAYS. The gentleman can stay around. We can do another 5 minutes afterwards.

Mr. Pomeroy, before I recognize you, I would like to put on the record, because I am a little confused with the comments that were made about the percent of GNP and so on. In the President's budget book on page 173, the interest on the national debt actually was \$203 billion and estimated 6 years later, by the year 2000, it will be \$309 billion.

Ms. TYSON. So that is the \$309 billion. That is fine.

Mr. SHAYS. So the gentleman is definitely correct. You clearly have to be concerned about it, like we are.

Ms. TYSON. We are concerned about it. What I was trying to do again was put that in the context of overall government spending. It is only rising—I did these numbers myself. I think the——

Mr. SHAYS. It was just—the concern I had was that——

Ms. TYSON. Yes, but again, let me say that we are all grappling in our own way with the legacy of something that we inherited.

Mr. SHAYS. Doctor, I just wanted to put it on the record, and you can comment on it, but just so that we have it on the record, the facts as you have presented them as well.

Mr. Pomeroy, you have the floor.

Mr. POMEROY. Thank you, Mr. Chairman.

Dr. Tyson, welcome. I have enjoyed the discussion this afternoon very much. I found it very interesting, and frankly, listening to alternative views of whether a stabilized deficit at about \$200 billion or a balanced glide path toward a balanced budget is more persuasive, I would have to say I tend to think that what my friends on the other side here are saying about gliding toward a balanced budget makes more sense to me.

The only thing is, I do recall that these people who are without question sincere and speaking sincerely about the balanced budget have signed a contract that commits them to financing a \$200 billion tax break, and that is before they get on this glide path, and that glide path has got to be steep enough to get them to a bal-

anced budget at 2002, and for the life of me, I can't figure out how they are going to do that.

Do you—I mean, as you looked at this budget, constructed this budget, do you see any conceivable way to hit a \$200 billion tax relief figure and hit a balanced budget by 2002 without decimating programs that are really important to people?

Ms. TYSON. Well, we have done some calculations and our calculations, looking at programs in place, programs that have been put off the table, such as Social Security, interest payments which you can't put—you can't leave on the table because we are not going to not pay interest, defense, which is slated in this proposal for an increase, when you put all of that together with the tax cut and the desire to balance the budget, our estimates were somewhere in the order of \$1.2 trillion of spending cuts.

That would require by our view about 30 percent cuts in the programs that are left on the table, but then once you start taking certain of those off the table, you end up with 40-, 50-percent cuts in the remaining.

Look, the truth is that we cut in this budget \$144 billion. In our first budget, we cut about \$250 billion. In addition, we paid for a tax cut of \$63 billion. Our view is that the challenge here frankly is to come up with a—to be credible against our standard.

You have to come up with deficit reduction of at least \$505 billion, add another \$81 billion to that, and then find out a way to pay for these tax cut proposals and you are up to \$1 trillion plus, and that is going to be very hard to do. I don't see how it can be done.

Mr. POMEROY. I don't want to let the opportunity pass without noting that there are some casualties in your budget that I take strong exception to, terribly unwise policy, the elimination of the funding for the Corps of Engineers to deal with flood control, slashing, in fact eliminating the essential air service subsidies to rural airports, selling these power generating facilities that are going to potentially triple rates for most of—a good deal of North Dakota electricity consumers.

It is not as though the President's budget doesn't invoke heartburn. It invokes for me an awful lot of heartburn, and if indeed they are going to come up with the cuts and our chairman has a long record of being sincere about those budget cuts of which he speaks, it will be very interesting to see what all this looks like.

Ms. TYSON. Well, I think it is also very important in doing this to assess the cuts themselves in terms of their economic effects. We tried to, in our budget, ask ourselves how could we restructure the government and downsize the government in ways which would take out programs that really no longer served the economic function they once served, and maybe shift some funds to programs that were more important while cutting overall spending.

That is the kind of approach that anybody who is going to engage in serious deficit reduction has to follow. They have to ask themselves, is this the right program to cut? What are the economic costs and benefits of cutting this program? It is a very hard task, and we actually believe, again, let me just emphasize, my sense is we even made a balanced package in terms of priorities for the economy.

Mr. POMEROY. I have just a final quick question, relates to economic history. There was an economist at the table this morning that said the depression happened because of the interventionist policies of Herbert Hoover, held up wages to an extent that ultimately created this economic calamity.

Are you familiar with recognized economic history that holds to that view?

Ms. TYSON. I know of very little economic history that holds to that view. Now, I should say because we had a discussion about this before, economists do disagree, but the range of disagreement is not as large as one of the earlier debates suggested.

Usually on an economic question, you can find sort of the consensus view or the mainstream view or the place where the weight of the economic evidence lies and, frankly, that view of the depression is not the mainstream conventional consensus view.

Mr. POMEROY. Thank you.

Mr. SHAYS. Thank you.

The gentleman from Ohio, Mr. Hobson.

Mr. HOBSON. A couple of things I would like to say and have you comment on later. I would like you to read the Plain Dealer article sometime that we have. It is not a Republican newspaper, kind of interesting, their reflections upon an opportunity that might have been passed by the administration.

I asked Dr. Reischauer and I asked Dr. Rivlin a question when they were here—and I am sorry I was waiting for this vote, that is why I wasn't back—I don't disagree with you about the fact that we want to spend \$2 trillion through the year 2002, and you all appear to want to spend \$3 trillion.

But we want to make some changes to get there and one of them is going to happen one way or the other. We are going to—I asked Dr. Reischauer about Medicaid and Medicare—we are going to break the trust fund. He said, yes, and you better do something about it.

Do you agree with that? And I think Dr. Rivlin said the same thing. Do you agree with that?

Ms. TYSON. Yes. Those projections are well-known.

Mr. HOBSON. I know the questions are well-known, but have you presented a proposal?

Ms. TYSON. No. We presented an extensive health care reform proposal last year and I think, as Dr. Rivlin must have said to you on Tuesday or Wednesday, our decision this year was rather than make a proposal, we would say clearly, we stand ready to cooperate on the issue of health care reform and, yes, as a society, we better address that issue, yes.

Mr. HOBSON. OK, I am not going to—what about Medicaid?

Ms. TYSON. Health care reform encompasses all health care spending. It is not just Medicare or Medicaid, but those are the two most important components.

Mr. HOBSON. And you feel that the proposal that was discredited by the public was the answer that would have gotten us down to the figures that are necessary to accomplish the goals?

Ms. TYSON. That was one proposal. I think we have made it clear, the President made it clear in his State of the Union speech, we were not going to come forward with that proposal. There are

ways to start many of the proposals that were on the table at the end of the last year—had common elements in them.

They had found places to work on the Medicare and Medicaid programs. They had found places to work on insurance reform. They had found places to work on coverage for children and other issues, and there is a lot on the table already that we could build from in a cooperative spirit.

Mr. HOBSON. Let's talk about a cooperative spirit, because I think that is what we are missing. The President gave a speech that most of us all applauded, and we want to work in the cooperative spirit. But then we get a budget that, in my opinion, does not live up to what he said.

Many of us are trying to work on health care and try to work with the White House directly, but were rebuffed and walked away from—literally—by the White House and by people within the White House who frankly I respected, but we were cut off.

We tried to talk, and I will tell you, it is very frustrating. I didn't have a reputation of being a partisan person when I came here, but I will tell you, it is very difficult when you reach out and you try to work with people and you are rebuffed. And then you keep reading the rhetoric about everybody wanting to work together on something. It is very difficult to keep one's sense of equilibrium on that.

You know, I wrote a number of pieces of health care legislation when I was in the State of Ohio. I think I know a little bit about Medicaid and a little bit about health care, even though I am on the committee here. It is very frustrating to be cut off, frankly, and I think there is still good will here to work together, not only on the budget areas, but in the health care area and other areas, but we have got to get those lines going and get them out of partisan politics.

I would like to suggest one other thing. I suggested this in the Armed Services Committee. We all need to go to some focus groups. I didn't believe in focus groups until I started going to them. I think inside the beltway, for people here, they are very helpful, both here and out there. I invited Dr. Rivlin to go to Billings with us to see those people.

You know, I would say to you, I know you have a very busy schedule, you probably don't want to do that, but those kinds of things have been very meaningful to those of us to get out into the real world, and I hope that you can do that because you have got a tough job.

Thank you.

Mr. SHAYS. Mr. Hoke, you have the floor for 5 minutes.

Mr. HOKE. Thank you, Mr. Chairman.

I would second that—the thought of Mr. Hobson. We are going to be in New Jersey on Saturday afternoon at 1:00, and I am sure—I don't speak for the chairman, but I will since he is also an Ohioan, and I will just take the privilege of inviting you to join us.

I expect there will be somewhere between 500 and 1,000 people and listen to what they say. I mean, what they are looking for from the White House, from the Congress, from all the people that they look to for leadership is an example to be set, and I mean, I know that—I am sure you get all kinds of polling information and all

this, but I think it might give you and the President a little more courage to realize just how serious people are about this. They are willing to do the tough things. You know, there is something that happened earlier.

Dick Armey, our majority leader, said that you can't imagine how the knees of Congress will buckle, you remember there was a big furor over there and people said, oh, my goodness, he is talking about these huge cuts. He wasn't talking about the American public. He didn't say the people's knees would buckle. He said Congress' would, and what we need, and frankly I think what the administration needs is the courage that comes from seeing that the American people are more than willing to do what is necessary to bring our fiscal house in order.

They are willing to make whatever changes are necessary to be made as far as the government goes, and the truth is, that they are not—these are not dramatic, draconian, radical kinds of changes. But let me focus—I don't want to—frankly, I don't envy your task coming up here. I thought about this with Dr. Rivlin the other day.

First of all, I think it is tough to be trying to defend what is in my view at least indefensible, and secondly to try to put the best face on this thing where—with a claim that there is more deficit reduction. I think that is just an incredibly difficult task for you.

Do you think it is important to balance the budget? Does the administration think that it is important to balance the budget?

Ms. TYSON. I have heard that question many times in the past week.

Let me start by saying, since you weren't here before, I don't find it difficult to defend this budget. I don't view it as a political document. I view it as an economic document, and I view it as a sound economic document, and I wouldn't mind going to a focus group and explaining why.

I think that the American people are right to be concerned about the deficit. They need to understand the extent to which progress has been made. They need to understand that so far this is the only alternative before them, the only other alternative they have before them right now is a \$700 billion tax relief proposal unfunded. So I think that I would be happy to do that.

What I said before, and I will say again, is that we inherited a fiscal mess. We have made substantial progress on improving that. I have always said from the beginning when I first joined the administration that the important way to look at the deficit is relative to the size of the economy.

When a household borrows money or a business borrows money, how much they borrow depends on how big they are. We do have a glide path for this deficit. It is coming down relative to the size of the economy and it is coming down in ways which no one thought was possible 2 years ago.

Now, is that enough? No, it is not enough. We should do more, but again what I would say to this focus group is if you look inside this budget, what you will see is not a problem of foreign aid, it is not a problem of welfare spending being a major driver of the budget.

We should do welfare reform but not because it is a major driver of the budget. The major driver of Federal spending right now is health care spending, and I think people should know that, and then think about what is the appropriate thing to do about that particular problem, and that is how I would talk to the focus group and that is why I feel fine about defending this budget because I think it is the right budget for right now.

Mr. HOKE. It doesn't make any suggestions—it doesn't offer any kind of concrete plans for what—to reduce the amount of the budget that is going into Medicare and Medicaid.

It clearly keeps it a flat \$200 billion deficit. Probably the most compelling reflection of the rise in the total debt is reflected in the fact that we go from a \$204 billion interest expense in 1994 to a \$308 billion interest expense in year 2000. I mean, that is a 50-percent increase in paying interest. That is money that is gone.

Ms. TYSON. But what I would also point out to people, I think they would be surprised to find this out is the Clinton administration is the first administration since the 1960's to essentially spend less on its own programs than the tax revenues it brings in.

Essentially we are dealing with an interest problem that mainly got built up in the last decade, and this administration is trying to make some progress on doing that, but we are trying to do it in a sensible and gradual way.

Mr. HOKE. I appreciate your sincerity and I am not going to attack that, but I will tell you this, that it seems to me—I see the red light—and I am not on my own here.

Every editorial page in the country, including my own Plain Dealer from Cleveland, I can assure you this is not a bastion either of Clinton-bashing or right-wing rhetoric. These are your friends, and people—everyone is saying, look, you are going through the motions. It is a political document. It is treading water. It is not serious, maybe it should be that way because after all it is probably not going anywhere, but thank you.

Mr. SHAYS. I am going to exercise my right to ask questions because I passed and there may be some members that want to go around a second time. I know Marty Sabo would like to, do you, in this case, want to go? So we probably have about 15 more minutes. I think we have about 15 more minutes.

Ms. TYSON. OK, that is fine.

Mr. SHAYS. I would like to just tell you a bit of my concern and then ask you some specific suggestions.

I am concerned the interest rate does go from \$203—interest payments to \$309. I mean, I have seen a 50-percent increase and I know that some of it was that we bought short-term debt and that was probably one of the mistakes that was made.

I mean, there were some things in the budget that weren't mistakes. That was probably one of them. But I am concerned when I look in the President's budget document, the gross debt in 1994 is \$4.6 trillion and the President anticipates paying \$6.6 trillion, so I am seeing a \$2 trillion increase if we go along with the President's plan.

So I had this sense that the President, and you would not want us to pass the President's budget, that you hope that we can work together to come up with some other suggestions, so what I would

like to do is ask you what specifically—help us to make suggestions on how we should reduce the growth of Medicare and Medicaid.

Why don't we start with Medicare. How should we reduce the growth of Medicare?

Ms. TYSON. First of all, I want to say that I don't agree with the premise of the question. I think that I would like to see our budget passed and in fact I think it is quite likely that much of it will be passed because in fact it is the only alternative, and having gone through the numbers very carefully over the past 3 years, as Mr. Pomeroy suggests, there are some very, very difficult choices in this budget alone.

We have not paid any attention to what is happening to the Department of Transportation or HUD or the Department of Energy or the ICC or numerous programs which will be debated actively before—

Mr. SHAYS. Why is it the only alternative? I don't understand.

Ms. TYSON. There isn't any other one so far, is there? Maybe there will be. Then we will debate its merits.

Mr. SHAYS. It would be disingenuous of me to say to the President in December, you haven't come up with your budget. The President was required to come up with a budget in February.

I think that it is a status quo budget. I think there is no heavy lifting. Now it is up to us and in April, if we don't come up with that budget, then you have every right. We are going to come up with a budget. It may be a good one or a bad one depending on how well we can work together.

I am looking at a chart that I think was put on your desk and just the basic pie that says to me the dark blue is 50 percent of this budget are entitlements. Then I look at the yellowish and two-thirds of our budget is on automatic pilot and the various pink tones are discretionary spending.

When I look at this bar chart, the fastest growing expenditures are the growth of teen entitlements. They are all in blue. They all go by—you have 9 percent, so our numbers slightly differ in terms of the growth, but you say that Medicare has gone up 9.6, 9.1, is Medicaid and other entitlements, 6.1.

The bottom line is that there is no real suggestion of how we should control the growth of these items in the budget, but you do a good job, I think, of trying to control the discretionary money. I mean, it hardly goes up at all. That is where you succeeded. That is where Congress has succeeded, but our big problem is not with 33 percent of the budget; it is with 50 percent of the budget.

So it is a fair question to ask you, where would you control the growth of Medicare and Medicare? Give us some suggestions that we can take and consider.

Ms. TYSON. Our proposal this time around, having done that once before with little success is, as Alice Rivlin has said clearly, we made a decision here that we stand ready to work with you with your proposals. We have proposals on the table from last year, we have proposals on the table from our health care reform effort.

Mr. SHAYS. My problem with that is I think the President came in with a sincere attempt of universal health care, but he suggested that—it is hard to talk when I have someone talking in my ear. He

suggested that the package would reduce spending a certain amount.

In fact, CBO said instead of cutting \$50 billion, it was going to go up \$70 billion, so we had a difference of \$20 billion. There was nothing you proposed that was going to cut the growth of Medicare and Medicaid, so you haven't put anything on the table there. What do you suggest for Medicaid and Medicare that we should take to the table as items——

Ms. TYSON. Our budget is what it is. We are discussing our budget proposal right now. If you don't——

Mr. SHAYS. Which has nothing in it.

Ms. TYSON. We have said that up front. We did not include health care reform. We think we should work with you on health care reform.

Mr. SHAYS. What were the items in last year's budget that would cut Medicare?

Ms. TYSON. I can get you a list of what was in last year's budget. I would not recommend any cuts in any of these programs in the absence of meaningful health care reform because, as I said earlier and clearly, if you simply try to arbitrarily restrain these programs by capping them at some rate which is very unrealistic with where they are going and the growth of beneficiaries and the growth of health care costs, you will end up with real cuts in services, and you will end up with shifting the cost of those services on to the private sector or State and local governments, that is what you will end up with. So we would not endorse any particular measure in the absence of a meaningful health care reform.

Mr. SHAYS. My time is up for this round. We just have four Members. The gentleman, Mr. Sabo, has the floor for 5 minutes.

Mr. SABO. I have some questions, but first an observation.

I have been to two of the field hearings, and the folks who have testified have been overwhelmingly against the basic assumptions of the contract, which is the priority of the new majority for the first 100 days. They do not think the top priorities should be a \$700 billion tax cut to be enacted in the next month or two, \$700 billion, that it costs over 10 years, \$200 billion the first 5 years, then it doubles in cost the second 5 years.

I also have to say I listened to all of this discussion that says that we have done a good job in discretionary and the problem is entitlements. I notice Mr. Shuster telling us the other day the problem with the President's budget is he is not spending enough on transportation. We just passed line-item veto that supposedly is a panacea for something.

The only thing it applies to is discretionary spending—it does not apply to contract authority, does not apply to either existing, expanded or new entitlement authority, and so if that was some great big panacea, the only thing it applies to is the portion of the budget that has been under control. With my apologies to the President who supports it, all it is is fundamentally a transfer of power from Congress to the President, which in my judgment in the long term would probably just give Presidents leverage to increase spending where they want it versus where Congress wants it because historically Congress has appropriated less than Presidents have asked for.

Mr. SHAYS. You need to catch a breath here.

Mr. SABO. I want to ask a question. I happen to think we should move to a balanced budget, but I also think a balanced budget constitutional amendment is a serious mistake and there is a real distinction between them and that rarely occurs in our discussion. Let me ask a question as it relates to debt financing.

I happen to agree that historically using a significant amount of short-term financing has made fiscal sense for this government because historically short-term rates have been lower than long-term rates, and that has saved us money. On the other hand, in the projections by CBO if we should get to a balanced budget that saves us interest assuming that same distribution of debt.

I think fiscal prudence, because of the volatility of short-term debt, would mandate that if one were operating with a balanced budget amendment, one would have to move all debt financing to long-term debt. I am curious if you or anyone else has done any study on the impact of moving to all long-term debt both on interest costs for the Federal Government and what having the Federal Government moving totally into long-term financing might do to long-term interest rates.

Ms. TYSON. Well, you brought up an important issue, and first let me say the issue of the term structure of the debt here, they are having a number of comments here suggesting that the move toward more short-term debt may have been a mistake. I want to indicate that basically around one-third of Federal debt does have a maturity of less than a year.

In fact, what has been driving the—there hasn't been that much of a shift in fact. The interest rate increases in our forecast, if you look at our economic forecast, now we have interest rate increases relative to our previous forecast that reflect the fact that there were much larger than expected increases both in short-term and long-term rates last year, so interest expenses are growing.

That is one of the reasons you see that number that you have both mentioned up to 309. The big effect on interest payments by the government, the big effect on the increase has come from changes in the interest rates themselves, not changes in the structure of the debt that the government has outstanding.

We haven't done the kind of study that you suggested. You raised an interesting issue. It is the case, of course, that long-term interest rates, like short-term interest rates do move around. Short-term interest rates are under the control of the Federal Reserve.

Mr. SABO. You are refinancing less every year so the volatility is less and everything is sold—

Ms. TYSON. The point is that I don't have an answer to the question exactly, because we have not looked at that, but you do raise an interesting issue.

Mr. SABO. Let me ask one other question. I am curious what the impact of moving to a 60-percent vote for increasing the debt limit would do to interest rates. The reality is that, forgetting about the volatility which you can't deal with under the balanced budget amendment; the reality is that even if you have a balanced budget, in our State we allowed for tax anticipation borrowing. These amendments do not allow this if cash-flow doesn't follow. You still

would need ability to manage the debt, and it is at times difficult to get 50 percent; 60 percent is likely to mean that there will be increased times of uncertainty when the government may not be able to refinance debt.

Will that have any impact on interest rates?

Ms. TYSON. I think we have looked at this with the Treasury, and we are very concerned about this. Uncertainty is a major factor in what economists call risk premium, and that is an important determinant of long-term interest rates, so it is our view that an increased amount of uncertainty associated with having a supermajority control over the debt limit, which as you say basically interferes with the ability of timing.

This is not—if you want to control spending, you can control spending by controlling it directly. By adding the supermajority on the debt you really do increase uncertainty, and we believe you could easily increase, therefore the cost to the government, and the cost of any long-term borrower because it would be the effect of causing higher risk premium and higher interest rates.

Mr. SHAYS. Mr. Smith.

Mr. SMITH OF MICHIGAN. I think I understood you to say that the big factor in the increased cost of the interest is the interest rates going up.

Ms. TYSON. It is not the change in the maturity structure of the debt as much as the increase in interest rates on the debt.

Mr. SMITH OF MICHIGAN. No, but the interest rate goes up roughly 50 percent, the total public debt of this country going from \$4.6 trillion to \$6.7 trillion goes roughly—

Ms. TYSON. I was not talking about the issue of the debt versus the interest rate, but the maturity structure of the debt.

Mr. SMITH OF MICHIGAN. Of changing the maturity. But that hurts some, you agree with that?

Ms. TYSON. It hurts very little, the change in maturity hurts very little because the point is, look, the short-term interest rates, although they have gone up, are still considerably lower than long-term interest rates, and that has been historically true. It is rarely the case that that is not true. There have been occasions, but they are not—

Mr. SMITH OF MICHIGAN. In fact, the greatest reason for the increased cost of the interest by the year 2000 is the fact that we are increasing our public debt from \$4.6 trillion to \$6.7 trillion, the small variance that we might guess rightly or wrongly in the interest rate isn't the reason that we are having a 50-percent cost of interest and my earlier point was that makes us very vulnerable, and maybe Mr. Sabo, I am not sure, when are we going to be faced with increasing the debt ceiling?

Do you know, Ms. Tyson?

Ms. TYSON. I don't know the exact date at this point. Sometime in the fall, but I do not know the date.

Mr. SMITH OF MICHIGAN. Well, just to conclude a little bit, would the administration consider working with us in efforts to recalculate a more accurate CPI that would be used strictly for government use in determining a rate of inflation that is more appropriate for COLA's?

Ms. TYSON. I think that all of the problems that have been alleged to be a part of the current CPI have been identified by none other than the Bureau of Labor Statistics itself. The Bureau of Labor Statistics does the best that it can given the scientific information.

Mr. SMITH OF MICHIGAN. The CPI, you will agree the CPI was never designed to be——

Ms. TYSON. CPI was designed——

Mr. SMITH OF MICHIGAN [continuing]. To be a factor that should be used for wage or COLA increases.

Ms. TYSON. The CPI was designed as a measure of what happens to the prices of a market basket of goods, that is what it was designed for. It was picked up to be used as——

Mr. SMITH OF MICHIGAN. Should alcohol and tobacco products be in that market basket of goods that helps determine the inflation rate under the CPI which ultimately increases wages and increases Social Security retirement benefits, et cetera?

Ms. TYSON. I am not going to get into the details.

Mr. SMITH. But that detail right there is a \$15 billion detail, so what I am suggesting is there is room——

Ms. TYSON. You have to be very careful here because what you do is you take a statistic—the government calculates——

Mr. SMITH OF MICHIGAN. Let me ask you another question.

Ms. TYSON. Let me answer this, though. It is very important for an economist. The government calculates many statistics. It uses the best possible technical procedures to estimate those statistics, and it is subject to limits on statistical knowledge and limits on the resources it has to carry out its work.

I am very concerned about politicizing numbers. What you want to do is you want to decide what should be in a market basket; and your market basket and my market basket and the chairman's market basket may be different. Now do we want to do this through a political process or do we want to do this through a statistician's and technical process? I suggest we try not to politicize the numbers.

Mr. SMITH OF MICHIGAN. Let me ask a question and interrupt. Still we both agree that we want some appropriate measure for the reason that it is being applied for government use, and so all I am saying would the White House consider working with us to get a more accurate measure if there are inaccuracies for the reason that CPI is in use?

Let me ask you another question. Would the administration work with us to increase the retirement age for eligibility for Social Security?

Ms. TYSON. Do you want me to answer the statistics one first or the Social Security one first?

Mr. SMITH OF MICHIGAN. Social Security one.

Ms. TYSON. I think that our proposal, our view on Social Security is as we have said many times there is a whole issue of the demographics related to Social Security, and if this Congress wants to engage in that process, that at a certain point it will have to.

Mr. SHAYS. Thank you very much. We just have one last questioner, and then you are free and I appreciate you being before the committee, Dr. Tyson.

Mr. SMITH OF MICHIGAN. Mr. Chairman, in my last comment, thank you for looking at the record on the increase in interest rates over the next 5 years.

Ms. TYSON. Yes, that was helpful.

Mr. SHAYS. It will be an interesting few months here.

Mr. HOBSON. I want to assure you that I believe this committee this time is going to do its job, and we will make those tough choices with or without the leadership from the President. I would hope that we can do it together.

I think you should not misread the determination of at least this committee and a lot of new Members of this Congress, probably on both sides of the aisle, that they are ready to try to do something for the next generation—as the chairman talks about—of this country. That was the point I was talking about.

The other thing, I don't think you are going to like this part of it, but the thing that troubles me is—I don't want to characterize you particularly because you are saying the same things that the other people do when we talk about this—is what we ran into when we tried to work out this health care problem the last time. The arrogance, or the perceived arrogance, let me put it that way, that if it isn't "ours," we aren't going to do anything. That is in my opinion what broke down last time, and if we don't find a way to bridge that as we go forward and have language that says more importantly we want to—we have got some proposals, we didn't put them out or whatever, we are going to sit down and put them out or whatever, but we have all got to—if we are going to get at this problem of health care which I agree with you is at the core of whatever we do to decrease the spending of this country as a whole and to get better health care for people that need it, but it isn't necessarily a cut in spending.

There are some systemic changes that can be made, for example, in Medicaid and Medicare that can result in not this Draconian thing that all the lobbyists and all the special interest groups talk about, but begins to solve this problem and help people. As long as we sit here and go back and forth about it and one side says, well, you know, we are not going to put out ours, we put ours out before.

I think part of the reason the one didn't go before, frankly, is that nobody but a few people had a proprietary interest. I shouldn't say a few people, there were a heck of a lot of people working on it down there, but very few people here on the Hill on either side had a proprietary interest. Until you get a proprietary interest, and we get a proprietary interest in this particular issue, it ain't going to work.

Now, maybe you all are waiting for 2 years to go by and there will be another group that comes along, I don't know. But what I am trying to stress to you is from your position as an economic advisor, Dr. Rivlin, the health care people, we have got to figure out how we are going to get beyond this we-did-ours-the-heck-with-you type of thing.

Would you like to comment on that?

Ms. TYSON. Well, I guess, look, I agree with much of what you said. I want to note, however, that the first effort at deficit reduction, the first meaningful effort at deficit reduction in this Nation on a significant scale occurred in 1993 with no help from the Re-

publican side of the aisle. That was a very difficult way to start out a cooperative process.

Furthermore, we come here with a new budget, and we get no recognition of the significant amount of deficit reduction which is already in place. In fact, people just question our numbers.

We have \$505 billion on the table, we have offered another \$81 billion, and the economy has given us another \$90 to \$100 billion, that is just reality. What we hear back is you haven't done enough, we are disappointed, we want more without any alternatives on the table, and remember, your alternatives have to be enough to first pay for your tax cuts and then reduce the deficit.

So there is a way in which—there is a lack of cooperation, but I don't know where it started because we made a proposal and the proposal got through and the economy did well and there is no recognition of that.

Now, I think the President said clearly in his State of the Union Address, and I will say again, that that process of health care reform obviously didn't work, and that we bit off more than we could chew and that people like yourself who seriously have thought about health care felt you were excluded and maybe you were excluded, I wasn't involved in the process enough to know, but I accept your point.

I hope we can work on it together because I agree with you completely, it is the next major challenge we face. Rather than criticizing this budget for accomplishing nothing, I think the right cooperative spirit is to say this budget accomplishes something, we need to go further and do health care reform.

Mr. HOBSON. I hoped we had done that because most of us didn't say this thing is dead on arrival, most of us said there are things in here that we agree with, I hope we did. Maybe that didn't—

Ms. TYSON. Sometimes it comes across. It comes across from you very well.

Mr. HOBSON. Maybe it didn't resonate appropriately.

Mr. SHAYS. Before adjourning this meeting, I just want to say that I would love you to recall that there were Members who voted for a Solomon budget that took some of the President's tax increases and cut further, there were some in Congress that felt, including people like Tim Penny, who felt it simply wasn't enough. And it was probably my most difficult time to be in Congress where I thought with the Penny-Kasich plan, you actually had a congressional-generated effort to cut spending, and the White House didn't just—it didn't support it, they didn't just stay indifferent, they actually opposed it, and that was a difficult thing for me because I think that there were Members in Congress on both sides of the aisle who wanted to cut more and were willing to put their names on the line.

Did you want to make a last comment?

Mr. SABO. Yes. Let me respond because what Penny-Kasich did was take a whole series of savings in health care that the administration was using for health care reform, and it said we are going to take them off the table for dealing with health care reform. They drafted their bill very specifically to do that, and, frankly, there were significant technical problems with their bill.

On the discretionary side, they took a whole series of assumptions on how you could reduce discretionary savings, personnel reductions, significant numbers that we were already using to achieve the already significant tough discretionary spending limits we were setting, other estimates of cost, for instance, on the FAA corporation that came out of—I don't know where they came from because they were unrelated to reality.

I am perfectly willing to debate Penny-Kasich again. I think the administration was right, that that was very fundamentally a very overt attempt to frustrate the ability to do health care reform last year.

Mr. SHAYS. The challenge for us, though, in that issue was even if the White House had said we will go along with those cuts, but let's bankroll the cuts on health care, there would have been some opportunity because I feel like we wasted those cuts. Those cuts could have been made, suggested by the administration, they could have been made last year, and we would have been bankrolling those cuts.

I am going to adjourn the meeting and just point out that tomorrow we have a hearing at 10 a.m. with James Miller, former Director of OMB, and Joseph Wright, former Deputy Director of OMB.

And, Doctor, thank you very much for testifying. You have been here 2½ hours and you have been very helpful.

Ms. TYSON. Thank you very much.

Mr. SHAYS. The hearing is adjourned.

[Whereupon, at 4:27 p.m., the committee was adjourned.]

PRESIDENT CLINTON'S FISCAL YEAR 1996 BUDGET

FRIDAY, FEBRUARY 10, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:04 a.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Representatives present: Kasich, Shays, Lazio, Franks, Smith of Michigan, Inglis, Largent, Myrick, Brownback, Radanovich, Sabo, Stenholm, Parker, Coyne, Costello, Orton, Pomeroy, Browder, and Rivers.

Chairman KASICH. OK. The House Budget Committee will come to order.

And I want to this morning—I am very pleased and very excited to have Jim Miller, obviously former Director of OMB under Ronald Reagan, and also Joe Wright, who—Joe, you actually were under Jim Miller for a while.

Mr. WRIGHT. Yes, sir, I was Deputy Director under Jim Miller and Dave Stockman, and then when Jim left, I took over as Director of OMB.

Chairman KASICH. Fantastic. And we this morning also attempted to invite David Stockman to this hearing this morning, but he was—he didn't respond. I mean, we called him and everything else, he didn't respond. But I think it would be great at some point if we could get him to come down here. And I thought the Democrats would like him to come, because they think he is going to help them. And I think it would just be fun to have him here and hear what he has to say.

Mr. SABO. Have you ever read his book? I have never read it.

Chairman KASICH. So anyway, I want to welcome these two gentlemen this morning. And rather than my making a long opening statement, I just think it is important we get some perspective on maybe what they went through and what their difficulties were and what advice they have for us.

Jim Miller now is a distinguished author and he has written about his frustrations and experiences, and I think he will be very candid about what we need to do here. So I want to welcome them this morning and very much look forward to their testimony. Mr. Sabo?

Mr. SABO. Welcome.

Chairman KASICH. Why don't you go ahead and proceed?

Mr. JAMES MILLER. Thank you, sir. You want to go first?

Mr. WRIGHT. No, go ahead, Jim.

**STATEMENT OF JAMES C. MILLER III, FORMER DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET**

Mr. JAMES MILLER. Well, Mr. Chairman, members of the budget committee, I welcome this opportunity to appear before you and talk about the President's new budget. I speak on behalf of Citizens for a Sound Economy, an organization with 250,000 members across the country.

I think the President's budget contains some good news and some bad news. Let's give credit where it is due. The good news is that it contains a number of things of which I think this Congress will approve. Having a nationwide perspective, Presidents know that certain things need to be done. Eventually you see some things crop up in President's budgets—both Democrat and Republican. I think this Congress will be more open to some of these things than Congresses past.

I must tell that you in reading this document I was struck with a sense of *deja vu* because there are a lot of things in here that Joe Wright and I put in our budgets, and I think that you ought to consider favorably; privatizing the Naval Petroleum Reserves, the Power Marketing Administrations, the active weather part of the National Weather Service, rural electric cooperatives, et cetera. Not to terminate them, but to privatize them, I think would be a very good idea.

Let me also give credit where credit is due, and compliment Dr. Rivlin and her staff. Putting together a budget is a really tough job. And I think they have done a great job in assimilating all the information and presenting it in a reasonable, readable form. And while I have substantial disagreements with some of the policies incorporated in this budget, I think that she and her staff deserve accolades. I think Joe would agree with me that the OMB staff is really the cream of the crop and the best in the Federal Government.

But there are some substantial problems with this budget, and I must tell you that one of the most troubling is the way that the White House has characterized this budget as containing cuts in spending—that this budget cuts the deficit, that this budget increases defense spending.

I have a few charts here, just four in number, but with them I would like to explain a very simple concept. Ordinarily, when people think about cutting spending, what they understand it to mean is that you spend less next year than you spent this year, or less next month than you spent this month. So to characterize this budget as a cut in spending is simply wrong. Spending in this budget goes up every single year. That is the—

Chairman KASICH. Jim, let me have that easel moved so we can see this thing. Pat will help you set it up. There you go. I think that is better.

Mr. JAMES MILLER. OK.

As you can see, under this budget, spending goes up every single year. So the argument that this budget is a cut in spending is an absolute myth. Those are the numbers; they go up every single year.

The second argument is that this budget cuts the deficit. As you know, the budget does not cut the deficit. This dark area here at the bottom is the deficit. The deficit hovers around \$200 billion a year, every single year, throughout the whole period, 1995 through the year 2000. So it is a myth to say that this budget cuts spending and it is a myth to say that it cuts the deficit.

Now, how could you possibly balance the budget?

The argument is given over and over again that you can't possibly balance the budget by the year 2002 as called for in the balanced budget amendment. That simply is not true. You can balance the budget; you can balance the budget without cutting spending; without cutting spending as most people understand the term "cutting spending."

If you simply freeze spending, what happens? Revenues grow \$50, \$60, \$80 billion a year because of economic growth. And as this revenue increases, it overtakes the spending line, and you balance the budget. You balance the budget very quickly. In fact, you balance the budget and actually run a surplus in 1998. All you have to do is to have the moral conviction not to spend any more.

People say, well, you can't possibly balance the budget because of Social Security. Even if you exempt Social Security, you balance the budget by the year 1999, and in fact run a surplus in 1999. So the argument that you can't possibly balance the budget by the year 2002 is simply not true. With Mr. Stenholm's balanced budget amendment, you can balance the budget by the year 2002, and still exempt Social Security.

Let me go back to the myth about cutting defense. This is what it looks like. These are the defense outlays under the President's budget. Defense spending goes down and then goes up a little bit, but does not fully recover to this point right here. And domestic spending keeps going up and up and up.

So to repeat, the argument that this budget cuts spending is a myth. The argument that this budget increases defense spending is also a myth.

Now, there are some other things that bother me about the budget. There are some tricks in there. For example, delaying the COLA for military retirees until April, to make it the same as civilian retirees, saves \$385 million for fiscal year 1996. But to me that is like saying if you must cheat the civilian retirees, it is only fair that you cheat the military retirees as well.

There are a lot of user fees in this budget. I am not opposed to user fees. We had user fees in the budgets that Joe and I prepared, but for goodness' sake, there are some big ones in here. What user fees tend to do is to hide the size of government. When you have a new infusion of user fees, it seems that government isn't growing as fast as it really is.

Now, I think what you should do, and obviously this Congress has got to grope with spending in all dimensions, just as Mr. Stenholm and others do with the balanced budget amendment, you start by agreeing on principles. And the first principle you must agree to is that you are going to balance the budget. And I think beyond that, in deciding how to fit things in, you must again rely on principles.

I think the first principle here ought to be, as you look at an agency or program, ask yourself, is this an appropriate function of government? If it is not an appropriate function of government, put it in the private sector. Then ask yourself, if it is an appropriate function of government, is it an appropriate function for the Federal Government? If not, revive the long abused 10th amendment and give it to the States. And then of the things left, ask yourself, is this program causing more harm than good? And if it is causing harm, terminate it. And then of all that are left, ask yourselves can this program be improved? The whole direction, the whole means, the whole approach, the size of the program; can it be improved? If it can be improved, then do it. And I think that in following those principles you would make a lot of changes. I have a list of such changes in my testimony, and I would urge your careful consideration of those proposals.

Mr. Chairman, I think I would now defer to my colleague.

Mr. SHAYS [presiding]. Thank you, Mr. Miller.

[The prepared statement of James Miller follows:]

PREPARED STATEMENT OF JAMES C. MILLER III, FORMER DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

Mr. Chairman and Members of the Committee: thank you for inviting me here today to discuss the budget submitted last Monday by President Clinton. I speak not only for myself but on behalf of Citizens for a Sound Economy, a 250,000 member-and-supporter research, education, and advocacy group that addresses market-based solutions to public policy problems.

Like you, I awaited the President's budget with considerable anticipation. Unlike some of the pundits and some in the media, I did not expect the President's budget to be "dead on arrival." We've had a change in congressional leadership. Some things that Presidents typically propose that are unacceptable to a Democratic leadership may be acceptable to a Republican leadership. So, I speculated there would be proposals in this budget that would be warmly received—if not by every Republican, then surely by many in Congress.

The good news about the President's budget is that it does contain proposals that not only deserve support but should receive support. Frankly, reading some of the document I'm struck by a sense of *deja vu*, for it seems that parts are lifted directly from budgets that my friend, Joe Wright, and I prepared for President Reagan—fiscal years 1987, 1988, and 1989. Let me give you some examples: privatize the Naval Petroleum Reserves, the Power Marketing Administrations, the government's helium program, and the National Weather Service; reform a slew of programs, including the rural electric and telephone administrations; and terminate others, including the Interstate Commerce Commission. Also, I'd like to compliment Director Rivlin and her staff for a fine job in assembling the budget and completing the relevant documents.

But the bad news about the President's budget is substantial and it leaves me terribly disappointed. Perhaps the worst part is how it is being presented by the White House. In fact, some of the major themes being used to sell the budget are total myths.

1. Myth: This budget cuts spending.

Fact: Under this budget, spending rises every year.

2. Myth: This budget cuts the deficit.

Fact: Under this budget, the deficit hovers at around \$200 billion throughout.

3. Myth: This budget increases spending on defense.

Fact: Under this budget, spending on defense goes down, then up slightly, but does not fully recover. Under the President's budget, spending on defense in 1996 will be one-third less in real terms than it was in 1989, the last budget year for President Reagan. Instead, the spending increases in the President's budget are in domestic programs—discretionary as well as entitlements.

Of course, the reason why these myths survive is the remarkable disconnect between the budget language used within the beltway of Washington and by the media on the one hand, and the plain language understood by hundreds of millions of citizens all over this great nation on the other. In Washington budget-speak, a "spending cut" is a reduction in the rate of spending increase. For most families

dealing with their own budgets, a spending cut means you spend less next month than this month, or less next year than this year. A similar logic holds with respect to talk about deficits and defense spending.

Isn't it about time we all practiced a little "truth in budgeting?"

Let me move on to a few examples of other problems with the budget the President submitted on Monday. These are not revealed by a close inspection of the budget appendix. They leap out at you from the summary tables at the end of the main budget book.

First are the "tricks." As an example, the budget proposes shifting the COLA adjustment for military retirement from the first of the year to April. This "saves" \$385 million. The rationale for the change is to make it "consistent with timing for civilians." In other words, if you are going to cheat civilian retirees, you might as well cheat military retirees also.

Second, there is a profusion of user fees, and we're talking about big money. Now, I am not against user fees. I had user fees in my budgets. But user fees should be tied to the value of the services received. The big new user fees in the President's budget are revenue measures. Since user fees are typically treated as "offsetting receipts," they mask the size and growth of government. Let me explain.

Normally, if you wanted to increase the operations of an agency, you'd show an increase in outlays—a measure of size and growth of government—and an increase in revenue—a measure of the burden of government. But by using the device of offsetting receipts, you show within the outlay account of the agency both a credit and an equal debit. The real cost of government has gone up, but there is no change in total spending or total revenue.

Let me return now to the issue of truth in budgeting. One of the really big whoppers is that it's simply not possible to balance the federal budget by 2002, as called for in the Balanced Budget Amendment that passed the House and is now before the Senate.

Mr. Chairman, not only is it possible to balance the federal budget by 2002 with no new taxes, but with no cuts in spending. That is, if by "cuts" we mean the same thing families mean when they talk about cutting the family budget.

According to the President's submission of last Monday, federal spending in fiscal year 1995 will be \$1,539 billion, compared to receipts of \$1,346 billion, for a deficit of \$193 billion. Simply freezing total spending at the \$1,539 billion level will result in a balanced budget—not by 2002, but by 1998! The reason is that with economic growth averaging 2.5 percent yearly over the remainder of the decade, federal receipts will increase by between \$56 billion and \$86 billion per year over the same period.

Of course, this would mean a reduction in the overall size of government. With the inflation forecasts of approximately 3.2 percent, real spending would be nearly 10 percent lower in 1998 when the budget came into balance (actually, with a \$10 billion surplus). (If government spending were simply adjusted for inflation—that is, spending were frozen in real terms—the budget would still have a deficit of nearly \$70 billion at the end of the decade.)

But you've often heard that it's simply not possible to freeze Social Security. The incredible thing is that even permitting Social Security to grow and freezing everything else in nominal terms, you balance the budget by 1999 and then run a surplus of \$75 billion in the year 2000!

Freezing spending or some variant would not be easy for a government and a citizenry accustomed to business as usual. Just as in the case of agreeing first to balance the budget and then resolve the details, the important thing is to agree on principles and then apply them to specific programs and agencies.

First, ask whether this is a legitimate government function. If not, put it in the private sector. Second, ask whether the program is truly a federal responsibility, and in the spirit of the long-neglected 10th Amendment, send those that aren't back to the states. Third, of the programs that are left, identify those that are causing harm and terminate them. Fourth, of the remaining core programs, identify those that can be improved—their administration, indeed their whole approach. Consider what you would do if you applied these simple principles.

You'd privatize Amtrak (on the brink of bankruptcy), the Power Marketing Administrations (19 out of 20 watts of power in this country are distributed by private companies), the Naval Petroleum Reserve (the Strategic Petroleum Reserve is more than sufficient), the Tennessee Valley Authority (it would make a fine private company), the rural electric and telephone cooperatives (the public interest portions of their jobs were finished decades ago), the National Institutes of Health (would be run more efficiently and attract the best talent), the U.S. Weather Service (which competes directly with private outfits such as Accu-Weather), much of the electromagnetic spectrum (let the market determine the best user), the national helium

plant (a critical material for what—dirigibles?), and last but not least, the U.S. Postal Service (and eliminate its monopoly on letter mail!). The yearly subsidies (direct and/or indirect) would be eliminated, and their sales would generate tens of billions of dollars in revenue.

This is just for starters. Why should the federal government be far and away the largest land owner in this country. It's not as though the feds are the greatest stewards. Indeed, why not contract out to private groups to run the National Parks and manage the National Forests?

Eliminate the Department of Education—send control over instruction back to the states (as recommended by both Bill Bennett and Lamar Alexander), put research in another department, and provide a federal guarantee of loans from the private sector to finance higher education. Eliminate the National Endowment for the Arts (a basket case), the National Endowment for the Humanities (Lynn Cheney says to give its functions over to the states and the private sector), the Interstate Commerce Commission (if it ever had a public-interest rationale, that's long since passed), the Appalachian Regional Commission (outmoded and inefficient), and subsidies for mass transit (literally, money down a dark hole).

Make numerous reforms. For example, phase in modifications to Social Security to guarantee that people get back what they and their employers have paid in plus interest, but means test the Ponzi (redistribution) part. Replace both Medicare and Medicaid with a means-tested insurance voucher that would get both the federal and state governments out of the business of direct controls over medical care—thus relying on private sector incentives to increase efficiency and giving consumers broader choice in medical services. Ditto for Veterans' medical care—more compassion at lower cost. Completely revamp federal welfare programs by devolving them to the states—not only to save money, but more importantly to reverse the cycle of dependency, prevent the destruction of families, and build character rather than destroy it.

Drop the National Service Corps—a statist threat to our liberties. End funding of public broadcasting—people who play the Washington Monument Game (if you cut my budget one dollar the first to go will be Bert and Ernie) while sitting atop assets worth billions of dollars deserve to be cut off promptly. End the financial intermediaries' access to the U.S. Treasury—FHA, Freddie Mac, and Sally Mae are in essence private companies and should be run that way.

Put the Legal Services Corporation on the block—it squanders resources and finances litigation that is meddlesome at best and harmful at worst. Revamp the farm program to rely on signals from the free market—not on signals from the federal government, which perpetuates poor land use and impoverishes farmers generally while enriching a few in particular. Defund the EPA's Berzerker crew—especially those running around the country labeling every mudhole a "wetland." Collapse the programs of the Small Business Administration by putting a small business advocacy operation in the Department of Commerce and ending the SBA's highly-abused and non-essential loan program. Privatize the Railroad Retirement Board (give it a one-time grant, to make good on the federal government's part of the original bargain).

Go to multi-year budgeting for Defense. Revamp the procurement process to rely more on off-the-shelf purchases and competition rather than sole-sourcing. Quit using the defense budget as fodder for reelection campaigns.

Impose standards for productivity improvement and fund accordingly—that is, ape the private sector, where if you don't improve productivity you die.

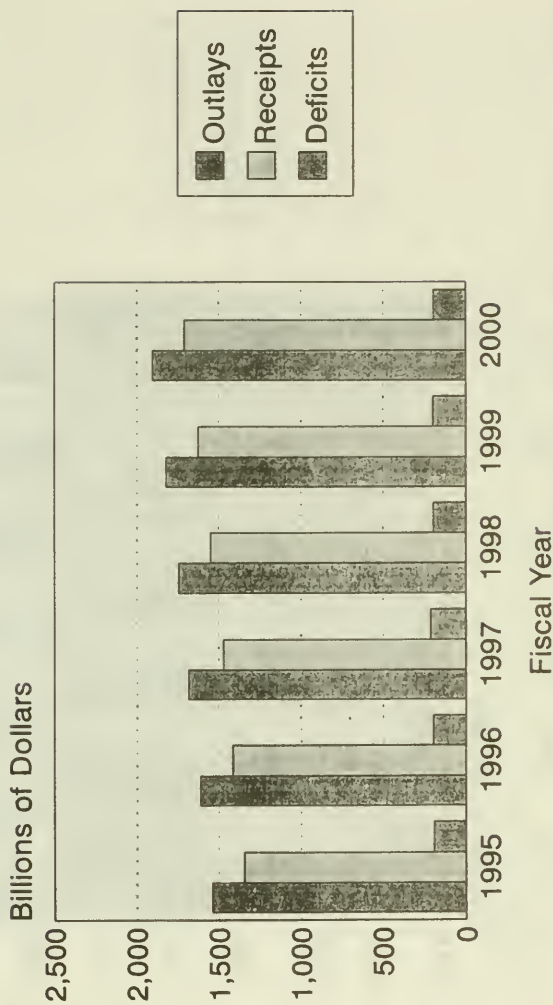
Strip back excesses of the Equal Employment Opportunity Commission. Terminate most programs of the Department of Housing and Urban Development—unless you and the President can focus on empowering home owners rather than building (institutional as well as physical) monuments to failure.

This list is not by any means exhaustive of actions that should be taken to reduce federal outlays. Nor, certainly, does the list address other worthwhile objectives, such as improving the performance and accountability of government (e.g., term limits), or reversing the hostility of federal programs to families (e.g., the "marriage penalty" in the income tax code), or taking the Fifth Amendment seriously to protect private property from confiscation without just compensation. But it is an agenda that you in Congress and the President can sink your teeth into. And if you do, surely no one will ever again question whether the budget can be balanced by 2002.

Mr. Chairman and Members of the Committee, thank you very much.

President Clinton's Budget

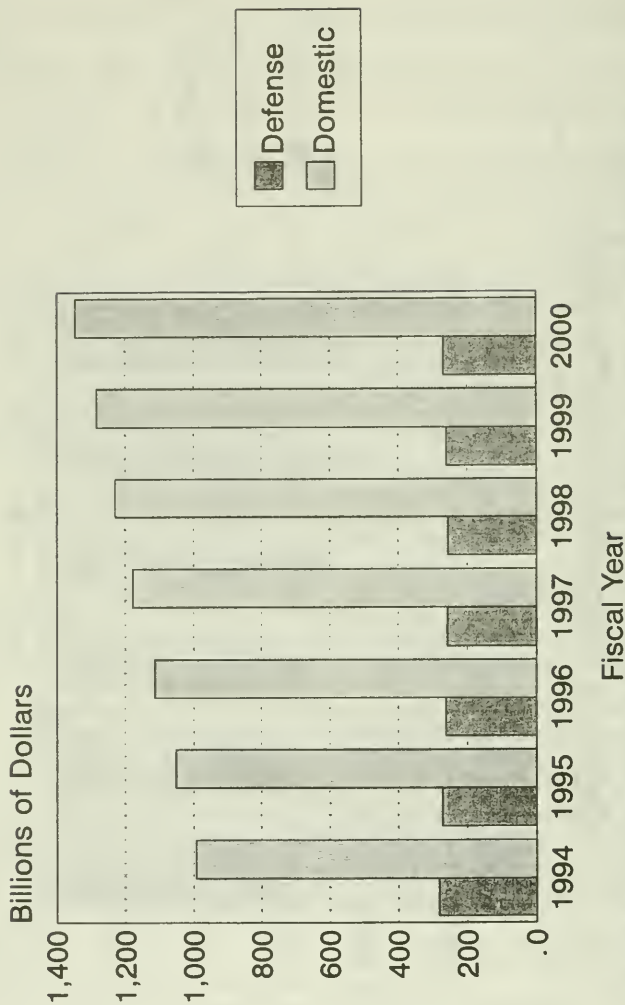
Outlays, Receipts, and Deficits



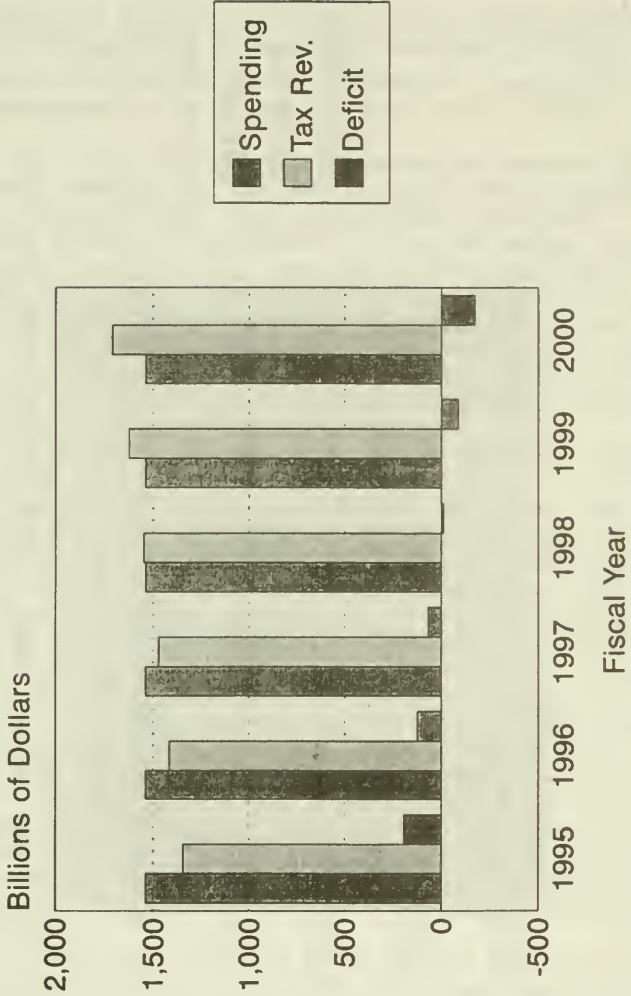
Source: Office of Management and Budget

Defense Spending vs. Domestic Spending

Defense Goes Down, Domestic Goes Up



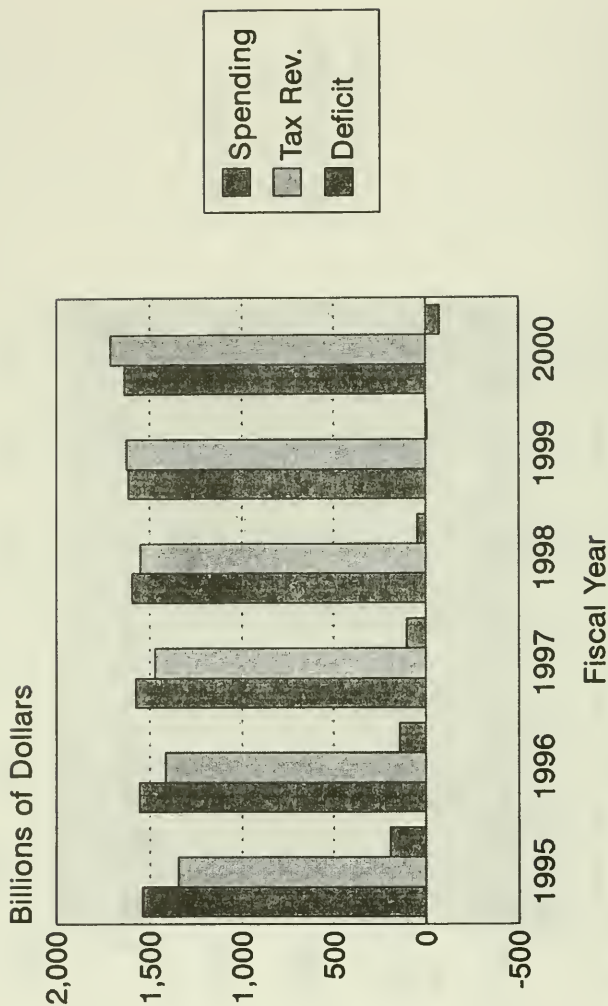
Balanced Budget by 1998 with Spending Freeze



Source: Calculations from President Clinton's Budget

Spending Freeze, But Exempting Social Security

A Balanced Budget by 1999



Source: Calculations from President Clinton's Budget

Mr. SHAYS. Mr. Wright, you have the floor.

**STATEMENT OF JOSEPH R. WRIGHT, JR., FORMER DEPUTY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET**

Mr. WRIGHT. OK. Thank you, Mr. Chairman. I would like to submit my testimony for the record and just make a few brief comments.

First of all, I have heard many amongst the Members of Congress on both sides of the aisle say that they were disappointed with the President's budget. And I totally agree with that.

I am going to be a little harsher than my colleague Jim Miller on it, because I would not only say that the President did punt on this budget, but he also punted backwards. And to punt at this time, when he has a Congress that is like this, that is willing to take many of the recommendations to reduce the deficit, particularly on the spending side, and then to propose a deficit of around \$200 billion for each of 5 years, I think is absolutely missing an opportunity and infringes on being outrageous.

I make a statement in my testimony that the deficit will probably go up after 5 years over the \$200 billion level.

Mr. Chairman, I would like to revise that. It will definitely go up, not only after 5 years, but during those 5 years, because there will be some supplemental declared for an emergency. And this is one of the few places in the entire world where emergency funding does not come out of some other spending of lower priority. It just gets added on. So what you are looking at is a total abdication of responsibility by the President.

The revenues are projected to go up by \$364 billion, Mr. Chairman, in 5 years. Now that should be plenty for anybody, \$364 billion. But the President actually proposes costs to go up more.

Now, Director Rivlin made a comment I believe on the news the other night that this proposal was a starting point. Mr. Chairman, I would hate to see the ending point. Because normally, the President goes and proposes one of the toughest budgets that can be proposed, and then the Congress adds to it. And so therefore this is not a good starting point. I hope that this Congress is different, and I believe it is.

Now, the interesting thing also is the deficits that are included in the President's budget are actually \$60 billion more than were estimated last year during the mid session. What happened in the last 6 months? The economics are approximately the same. What happened?

Now, while Medicare and Medicaid account for 40 percent of the growth in spending over that 5 years, there are no proposals, absolutely none at all, to reduce that growth. There are only extensions of the 1993 act and some disagreements with CBO. There are no savings for welfare; there are no real savings for the ag subsidies. I think they are down about \$1½ billion. That is not much, Mr. Chairman, it really isn't, not for a program like that.

And there are the program and agency terminations and consolidations, I believe in total there are about 400 of them. You are ending up with around \$2 billion in savings, approximately, with some cost increases, and very little administrative savings, for 400 programs. You know what that is like? That is, what, \$5 million a pro-

gram? And some of these programs are huge. So as far as I am concerned, that was not reinventing government, that is a repainting job. And with the Congress basically inviting the President to come in and make some hard decisions, it is not the time for repainting and redecorating. So I agree with Jim Miller, the President had the right idea, he just didn't pursue it.

Now, Mr. Chairman, as a taxpayer, I do not want a more efficient agency that should not exist in the first place. I do not want a report that is more accurate and more timely that is not needed. And I do not want a program that is skimmed down that is totally wasteful and should be eliminated in the first place. And in part that is what we have here. I list many agencies and programs, just the way Jim Miller did, that should, in my opinion, be closed down.

Mr. Chairman, there is a mistake on page 6 where I mention the National Endowment for the Arts and Humanities that spends \$173 million, and I question whether or not it should exist.

Let me correct that. The National Endowment for the Arts spends \$173 million, up \$5 million over last year. The National Endowment for the Humanities is \$182 million on top of that, up \$5 million in the next year. And the Institute for Museum Sciences is \$29 million, up \$1 million. The total for these three is \$383 million, up \$11 million. And all I can think of, Mr. Chairman, is the President is probably trying to get your committee a little irritated with those proposals at this time.

Now, it is not like there is a dearth of ideas on how to cut the budget. There are many of them. I mentioned in my testimony the Citizens Against Government Waste. The reason I mention them as they did put together a fairly good summary, a listing of many recommendations in 1994, amounting to \$1.3 trillion in savings over 5 years.

Now I may not agree with all of them, Mr. Chairman, and members of the committee, but it is a pretty good listing; and \$560 billion of those savings come from the nonpolitical, nonpartisan Congressional Budget Office. They are going to update this soon. There will be about \$1.2 trillion in savings.

But the interesting thing is during the last year, only \$50 to \$55 billion over 5 years were accepted as possible reductions in this \$1.6 trillion government.

Now, I have copies, Mr. Chairman, up here in case anybody would like to see them. They will be updated in the next 2 weeks.

I also mention the bipartisan Commission on Entitlements and Tax Reform that was chaired by Senators Kerrey and Danforth. I was very disappointed to see very little, if any, of their recommendations in the President's budget. It looks like those recommendations were not heard, read, or seriously considered at all.

And finally, as part of the Citizens Against Government Waste, you have the "Common Sense Plan" that was coauthored by Congressmen Penny and Kasich in 1993, that offered \$103 billion in savings over 5 years, and I don't know how many of those were actually implemented. So the point is, there are many recommendations as to how to reduce spending. It just seems that very few of them have been taken to date. And in my experience in DC, Mr. Chairman, and members of the committee, a decision not to cut costs is a decision to raise taxes.

Now, and this committee I know understands that this is an exercise that is more than a budget exercise. It really is defining the proper role of government.

I include some talking points from the Committee for a Responsible Federal Budget that basically lists some of what they think to be the core functions of government. Jim Miller gave some other suggestions. I know that that is the way this committee is approaching this, rather than just a budget cut.

And you have plenty of ideas and I know that you are thinking this way. But my advice, Mr. Chairman and members of the committee, is be bold now. We have been too timid for too many years. You have got to be bold now. And that is what, in my opinion, what the last election was all about, real change. Not just the prune and the trim job that we see in this President's budget.

Now I know that Director Rivlin fought for lower spending and deficits in the White House. And I know that she lost that fight. So I have got to hand it to her. But I simply wish that we would have had this Congress to work with during the days of Ronald Reagan. So I congratulate you on this opportunity that you have and would be happy to answer any questions that you may have.

Mr. SHAYS. Thank you.

[The prepared statement of Joseph Wright follows:]

PREPARED STATEMENT OF JOSEPH R. WRIGHT, JR., FORMER DEPUTY DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today to present my views on President Clinton's fiscal year 1996 budget proposal. I will try to be brief: this proposal reflects a total abdication of presidential leadership and responsibility in that it, if taken at face value, is "cruel" to future generations by loading them down with debt in order to posture politically and force the Congress to make the hard decisions. I join many of you in being disappointed with this budget proposal.

First of all, let me summarize my general feeling on the numbers in the president's proposal:

The President actually proposes that budget deficits at the Federal level stay at around \$200 billion for 5 years (and they will probably go up after that).

As a result, between fiscal year 1995 and fiscal year 2000 the national debt will grow from \$5 trillion to \$6.7 trillion, an increase of 35.3 percent, resulting in the interest on the national debt rising from \$267.8 billion in fiscal year 1995 to \$367.9 billion in fiscal year 2000, or 37.4 percent. This means that the interest on the debt will be equal to 48.6 percent of the individual income taxes collected by the Federal Government in fiscal year 2000.

Despite the President's income tax proposals, revenues are projected to increase \$364 billion between fiscal year 1995 and fiscal year 2000 or 27 percent which is more than enough to bring the budget to balance—the problem is that spending is projected to increase \$368 billion in the same period, which "freezes" the deficit at today's levels.

And these proposed deficits between the fiscal year 1995 and fiscal year 2000 are about \$60 billion more than the President estimated for these same years in 1994—about the same amount as the estimated revenue loss from the proposed tax cuts.

A large part of the \$81 billion in net deficit reduction over 5 years comes from extending the "caps" on discretionary spending for 2 more years, adjusting for projected inflation on the front end, and then cutting below the inflated level—saving \$68 billion.

In the area of the largest and fastest growing parts of the budget (but the toughest political areas) there are almost no proposals at all! Entitlements will grow from approximately 49 percent to almost 55 percent in 5 years while Medicare and Medicaid alone account for around 40 percent of the total "growth" in spending. And there are differences in spending forecasts between the President and The Congressional Budget Office [CBO] for Medicare over 5 years of almost \$24 billion and for Medicaid of almost \$44 billion. Are these false savings?

There are also no savings proposals for welfare reform.

Finally, a responsible, but politically tough budget proposal could mathematically result in a balanced budget in fiscal year 1999 when a real "freeze" on spending would probably come close to the revenue forecast of \$1.6 trillion. So it can be done—particularly by the year 2002!

I will not specifically comment on the President's economic forecasts but will only add that I understand that if the President used the forecasts of the Congressional Budget Office (CBO), the deficits over 5 years would be \$156 billion higher. This is not comforting.

Now, Mr. Chairman, while I obviously have serious problems with the President's budget proposal as a whole, I would like to applaud his efforts (and those of Vice President Gore) on their "Reinventing Government" initiatives. There are some very good proposals in this effort—but they do not go anywhere far enough given the serious deficit constraints we face today. While I have not had an opportunity to read all of the proposals, I have made the following observations:

The President proposes terminating 131 programs—but the outlay savings in fiscal year 1996 are only \$460 million with reduced budget authority of around \$2 billion—this is only \$15 million per program. And if the Department of Defense procurement/R&D projects are not included—this is only \$10 million per domestic program! The Interstate Commerce Commission (ICC) is the only real "entity" eliminated. What happened to the Departments of Energy, Education, Transportation, and Housing and Urban Development? Why did the Small Business Administration (SBA) survive? The Rural Electrification Administration (REA)? The Appalachian Regional Commission (ARC)? The Economic Development Administration (EDA)? Why is Amtrak still on the "dole" and why is the Federal Housing Authority (FHA) proposed as a "government-owned" corporation instead of totally privatized? Why should the National Endowment for the Arts and Humanities, with its \$173 million budget, survive—much less get a \$1 million increase?

The President also proposes consolidating another 271 programs that results in an increase in outlay spending in fiscal year 1996 of \$64 million. Why is this? Many of these programs shouldn't even exist! Why keep the funding of the Community Development Grant program, the Economic Development Initiative and the unexpended funds from the Urban Development Action Grant program alive? Why establish funds for the Public Housing Agencies—why not a voucher system? Do we really need a \$10 billion Unified Transportation Infrastructure Investment Program that funds a new "State Infrastructure Bank" at \$2 billion and funds discretionary projects at another \$1 billion? I don't think we can afford all these consolidations if the result is increased expenditures. And it appears that little, if any, administrative savings are realized from these consolidations of programs—this should be seriously looked at.

And while the President called for over \$6 billion in savings in 86 programs in fiscal year 1996—he also asked for over \$9.5 billion in increases in around 88 programs. This is not a deficit reduction.

So, while I am truly pleased, again, to see many of the "Reinventing Government" initiatives, they have the overall result in this budget of resembling a repaint job on a house that is falling down and needs a new foundation! As a taxpayer, I do not want a more efficient agency that should not exist at all—or a more accurate report that is not needed—or a consolidated program that has long outlived its usefulness and is now only wasteful!

So, this committee has a difficult job in front of it. But there have been a number of good reports prepared that present recommendations for reducing the cost and scope of the Federal Government. In 1994, the "Citizens Against Government Waste" prepared a compendium of proposals from various sources that could result in savings over 5 years of more than \$1 trillion. I have these proposals available to the Committee for your review and they are currently being updated—but you can see that the majority of savings come from the nonpartisan, nonpolitical CBO:

Recommendations by Citizens Against Government Waste to Reduce the Deficit

(Millions of dollars)

	1-year savings	5-year savings
Public sources:		
Congressional Budget Office	\$48,589	\$560,395
National Performance Review	1,345	4,540
President Clinton, Vision of Change for America	1,598	10,878
Current Congressional Proposals	48,557	313,455
Private sources:		
Grace Commission	28,276	110,649
Citizens Against Government Waste (and The Cato Institute, Mr. Martin Gross, The Heritage Foundation, and the Department of Health and Human Services Inspector General)	58,477	301,941
Total	186,842	1,301,858

While I do not necessarily endorse all of these proposals, they do seem to constitute one of the more complete lists of ideas from a variety of well-respected sources.

And I am disappointed that the "Bipartisan Commission on Entitlement and Tax Reform" chaired by Senators Kerrey and Danforth were not taken more seriously. They should be revisited. As they reported to the President: " * * * the government must act now. A bipartisan coalition of Congress, led by the President, must resolve the long-term imbalance between the government's entitlement promises and the funds it will have available to pay for them * * * life looks good for the next 5 years. However, the next 30 years is a period of significant increases in entitlement costs plus net interest. Two crucial moments conspire to make our lives miserable * * * the first moment is the year 2001 when the Medicare Hospital Insurance program (currently funded with a 2.9 percent payroll tax) becomes insolvent. Rapidly rising health care costs and longer life spans combine to make our policy choices very difficult * * * the second crucial moment [is] in 2008 [when] the first of the Baby Boom generation—Americans who are now 48 years old—will begin to retire * * * " They also recommended that "we change our current laws to create a future in which we balance our entitlement commitments and the funds available to honor those promises." The President's fiscal year 1996 budget appears to have ignored these recommendations—or even these findings.

Mr. Chairman, what you are doing today and this year is not just a budget exercise. You and your colleagues in Congress have a chance to—not only reduce the deficit in a fiscally responsible manner—but to reshape the role and responsibilities of the Federal Government. But you should start by looking at what that role "should be"—not changing what it "has been." The Committee for a Responsible Federal Budget recently prepared a paper on what the "core business" of the central government should be—I have included it as an attachment. I know this review would be a tougher path to take for the Committee than just cutting budgets—but I think that is what the American people asked for last November and I would be willing to assist the Committee in this effort in any way where I can be helpful.

Thank you for the opportunity to appear before this committee. I will be happy to answer any questions that you may have.

CORE BUSINESS

What are the core businesses of the Federal Government? What must the Federal Government do? What are the roles and responsibilities of States and local government? What can/should the private sector do better or more effectively than government can do?

The Federal role:

National Defense.

Border protection and Immigration policy.

International Relations.

Environmental Protection across State/International Borders.

Maintain a fair and consistent legal/regulatory environment, e.g.:

Patent, copyright, and contract law.

Health and safety regulations (food safety, transportation safety, etc.) and consumer protection in commerce, communications and technology across State/International Borders.

Public Lands/Public Resource Management.

Law Enforcement, Interstate and International.

Transportation—Completion of the Interstate Highway System, Air Traffic Control, Inland Waterways.

Support for Basic Research, weather service, etc., highly concentrated costs/widely dispersed benefits for the entire country and the whole population.

Income Support and Social Services.

Effective, efficient management of all government functions.

The greatest debate and uncertainty about divisions of responsibility between the Federal government and States continues to be in the areas of Income Security and Social Services.

Social Security and Medicare are two of the most popular Federal programs ever conceived. However, taxes dedicated to pay for those two programs subsume 7 percent of GDP today, twice the percent of GDP they subsumed on average in the 1960's.

Current laws and policies, if continued, will continue to subsume an ever-greater percent of GDP to pay for Social Security and Medicare, well into the 21st century.

The choice is simple: restrain the rates of growth in those two programs, the rest of government must shrink very substantially, total federal revenues must increase as a percent of GDP, or government must continue to borrow, running up deficits and debt.

Federal employee pensions, health care, etc., are part of a total compensation package. They should be evaluated in that context. The Federal government may be the last remaining employer in the United States to consider separately cash compensation, health care, pensions and other compensation issues.

Other Health Care Programs. Medicaid may be the most serious cause of tension between the Federal government and States today. Increased Medicaid costs comprise more than 100 percent of total spending increases in some State budgets. States have limited control over those costs, as they derive largely from federal mandates.

Should the Federal government provide/pay for health care? For whom? How?

Should health care for the indigent be a Federal responsibility? If the Federal government defines the eligible population and the benefits they receive, should the Federal government also pay the bills? If States define eligibility and benefit levels, should the Federal government pick up all or part of the cost? How much? Why?

If the Federal government is to be the "health insurer of last resort" for the needy, can it fulfill that role best through public health clinics, the current grant system which reimburses for fee-for-service medicine, or through capitated grants (with States as either presumptive or competitive delivery agents)?

Cash Assistance. The principal welfare program, Aid to Families with Dependent Children or AFDC, is child based. Parents get aid based because they have children. The Federal Government is not in the business of providing cash grants to healthy adults who do not have children. Thus the controversy about what to do about children of welfare recipients who do not go to work or do whatever else government wants them to do. Supplemental Security Income [SSI] replaced the old Aged, Blind and Disabled program. Many if not most beneficiaries are elderly. Payments are based on disability and incomes, the only questions are: how disabled and how poor should recipients be to qualify for assistance?

Food and Nutrition Programs. Food Stamps, WIC, Child Lunch programs, etc., all tend to become more costly than cashing out such programs likely would be, for two reasons:

We extend eligibility for these programs to people with incomes too high to qualify for cash assistance; and

Farmers, food processors and distributors, schools and other ancillary beneficiaries lobby for increases in the programs.

Housing Assistance—two distinctly different kinds of housing assistance programs.

Loans and loan guarantees, support for secondary housing loan markets, tax preferences and other strategies designed to promote middle class home ownership; and

Low income housing assistance, which exhibits the same tendencies as food and nutrition programs to become more costly than cash assistance likely would be, and for the same two basic reasons.

The Federal government has had almost no success building, financing, maintaining and/or managing low income housing.

Social Services, including child care and other services designed to enhance the employability of needy populations and/or improve the quality of life for poor children.

The Federal government gives tax credits to working families for child care and provides child care and other child-directed social services for welfare dependent

children, largely through Head Start. Head Start also is generally considered to be a very successful pre-school education program. But, if we maintain that education is primarily a State/local responsibility, the justification for continuing Head Start should depend on the role of the Federal government in child care and/or providing social services to the indigent.

This is a good example of decisions about what to cut which should be guided by a clear strategy and definition of roles. Political leaders should resist the temptation to continue things they like and cut out things they don't like.

We have expressed views about what the Federal Role should be in discretionary programs. The discussion above raises some of the questions and issues which must be resolved if the Federal Government is to enact coherent, strategically consistent welfare and/or health care reform initiatives.

Domestic Discretionary Spending programs in the budget, generally were designed to meet the needs of the country in the 1960's. Programmatically, you can make a case that many if not most of these efforts failed. But they succeeded dramatically in an unanticipated way. One reason the Federal government became involved in funding State/local functions, from education to economic development, was that State and Local governments were deemed incompetent to meet these needs. Federal funding may not have improved education, or reversed the decline of our cities, but it did facilitate a highly successful capacity building exercise. States and localities today clearly are up to the tasks they face. Arguably, and in many instances, they manage their affairs better than the Federal government. (See attached discussion of cutting discretionary Grants to States and Local Governments.)

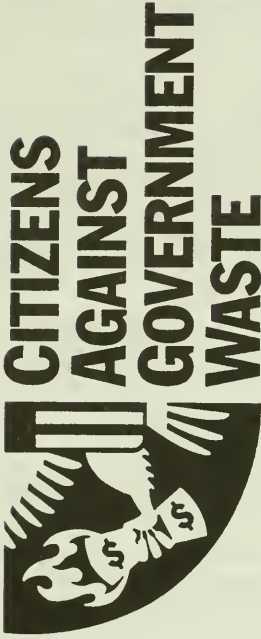
It may be desirable for the Federal government to provide some funding to poor States/localities, for purposes of equalization, but the organization of Congress makes that a daunting task. Congress is unlikely to approve funding unless benefits flow to at least 218 Districts and 51 States. The Federal Government might do better to focus on putting money in the hands of poor people, on the grounds that purchasing power would increase in areas where there are high concentrations of poor people. That might be accomplished through a standard federally funded welfare benefit, with no Federal participation in state supplementation. It might be assisted by aggressive efforts to locate Federal facilities (and jobs) in economically depressed areas. It might be accomplished by a very limited revenue sharing, subject to annual review through the appropriations process.

Credit Activities. This is another area which requires serious examination. The Federal government is in the credit allocation business big time. Federal credit programs serve the purpose of advantaging borrowing for selected activities (e.g., home ownership, student loans) over others and/or encourage lending to borrowers who otherwise would not qualify and/or for purposes for which institutions otherwise would not make loans. Should government be in the credit allocation business? If so, to what extent and for what purposes?

Insurance Programs. The Federal government insures people/businesses against losses for which they cannot buy private insurance and/or for which they otherwise could not afford private insurance. Taxpayers subsidize these programs. To what extent should the Federal Government continue to operate insurance programs, for what purposes and populations, and at what cost?

Disaster Assistance. Disasters tug at all our heart strings. Almost everybody wants the Federal government to provide some disaster assistance. But some who live in disaster prone areas benefit over and over from these programs. Some effectively substitute disaster assistance for insurance. Probably the best safeguard against excessive generosity with taxpayers' dollars in the face of disasters is to force ourselves to budget for and pay these costs from regular discretionary allocations under whatever expenditure limits Congress enacts.

If the Federal government is to meet the twin objectives of a balanced budget and tax cuts, however, large functions of Federal activity will have to end entirely. The basis for choosing which to end and what to continue should begin with a coherent strategy and end with a vision of what the smaller, leaner, more effective and efficient Federal government should be and what it should do.



PRIME CUTS, 1994

Menu to Cure the "Waste Tax"

How to Save Taxpayers More than a Trillion Dollars by Cutting Spending in Washington

© Citizens Against Government Waste
1301 Connecticut Avenue, N.W., Suite 400
Washington, D.C. 20036

**PRIME CUTS:
MENU TO CURE THE WASTE TAX, 1994**

	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)	Page Number
PUBLIC SOURCES:			
I. Congressional Budget Office	48,589	560,395	1
II. National Performance Review	1,345	4,540	10
III. President Clinton, Vision of Change for America	1,598	10,878	11
IV. Current Congressional Proposals	48,557	312,455	12
PRIVATE SOURCES:			
V. Grace Commission	28,276	110,649	21
VI. Citizens Against Government Waste*	58,472	301,941	32
TOTAL	186,842	1,301,858	

NOTE:

Shaded recommendations in the following tables are either identical or substantially similar to proposals in the National Performance Review, 1993.

*Includes recommendations from The Cato Institute, Mr. Martin Gross, The Heritage Foundation, and the Department of Health and Human Services Inspector General.

PRIME CUTS, 1994

America is more than \$4.5 trillion in debt. The federal budget deficit was \$255 billion last year. And each day, while Washington dawdles and dickers over the nuances of deficit reduction, the nation slips nearly a billion dollars closer to bankruptcy.

Taxes already consume nearly 40% of our pay, but insatiable Washington wants more. Citizens are lured into the acceptance of higher taxes with promises of deficit reduction — a "bargain" Washington has broken before. Each time taxes have risen, spending has grown even more. And what kind of return do taxpayers get on their investment? Waste, inefficiency and mismanagement remain pervasive in the federal government, claiming 34 cents of every individual income tax dollar.

For a nation facing such realities, symbolism and shell-game accounting won't cut it anymore. With America's economic future at stake, the time for posturing and paper cuts has passed. The people are demanding dramatic, tangible action to restore America's fiscal well-being.

As in 1993, Citizens Against Government Waste (CAGW) has compiled the most comprehensive catalogue of private and public-sector reform recommendations available anywhere, which we call "Prime Cuts: Menu to Cure the Waste Tax." CAGW estimates that this year the federal government will squander \$186.8 billion on pork, bureaucratic bloat, and programs that are poorly managed, have failed or outlived their usefulness, duplicate other programs, encroach on state and local responsibilities, enrich special interests at the expense of families, or are simply extravagant.

This \$186.8 billion equals 34% of the estimated \$549.9 billion that individuals and families will pay to the federal

government in income taxes this year. For a median-income, two-earner family of four, waste consumes \$1,850 out of a \$5,442 federal income tax bill.

That \$1,850, the "Waste Tax" for a typical family, could supply: six months' worth of groceries; or two house payments; or the down payment on a new car; or most of a year's medical insurance premiums; or one semester of tuition at a state university.

Interest payments on the public debt, estimated at \$298.5 billion for Fiscal Year (FY) 1994, consume another 54.3% or \$2,955 of this family's federal income taxes. Waste and debt interest combined absorb \$4,805 of this family's income taxes, leaving only \$637 for government services.

To determine the Waste Tax, CAGW examined waste-cutting recommendations from government sources such as the Congressional Budget Office and the Office of Management and Budget, as well as private-sector sources such as the Grace Commission, and totaled the non-duplicative savings. In 1993, \$78 billion in prime cuts identified by CAGW were enacted by Congress.

Until the 556 recommendations outlined in this document are implemented, taxpayers should not be asked to fork over another cent. These waste cuts can reduce the deficit and save taxpayers more than \$1.3 trillion over five years.

Citizens Against Government Waste is a nonprofit, nonpartisan organization with more than 600,000 members nationwide. Nothing written here is to be construed as necessarily reflecting the views of CAGW or as an attempt to aid or hinder the passage of any bill before Congress.

PRIME CUTS, 1994

MENU TO CURE THE WASTE TAX

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
I. CONGRESSIONAL BUDGET OFFICE			
A. Reducing the Deficit: 1994 Spending and Revenue Options			
DEF 01	Reduce nuclear delivery systems within overall limits of START II.	280	3,590
DEF 02	Terminate production of D5 (Trident II) missiles after 1994 because of the reduced threat of nuclear war between the former Soviet Union and the United States.	130	2,770
DEF 03	Reduce Department of Energy's warhead activities in an era in which stopping nuclear proliferation has become a key national security priority.	110	2,620
DEF 04	Focus theater missile defense efforts on core systems which include Theater Defense Missiles, Patriot Advanced Capability, and the Theater High-Altitude Area Defense system.	1,890	18,470
DEF 05	Terminate production of the Titan IV.	210	2,980
DEF 06	Reduce the number of 12 aircraft carriers and 11 air wings to 10 each.	240	6,330
DEF 08	Eliminate frigates from the naval force, reducing expenses for logistics and spare parts.	80	2,330
DEF 09	Reduce procurement of DDG-51 Destroyers, which were designed to meet the Soviet threat.	40	2,700
DEF 10	Reduce Air Force tactical forces to 18 from over 72, which would still leave the United States with an acceptable level of military capability in a post-Cold War world.	120	4,980
DEF 11	Cancel the Air Force's F-22 aircraft program, which is suffering cost overruns and developmental problems and whose usefulness has been questioned.	1,140	8,440
DEF 12	Cancel the Navy's F/A-18 fighter upgrade, which may be questionable in view of today's reduced military threat.	740	5,250
DEF 13	Cancel the Marine Corps's V-22 Aircraft Program, which costs considerably more than its helicopter counterpart.	230	350
DEF 14	Reduce the number of Army light divisions, which were not even needed in Operation Desert Storm.	310	12,600
DEF 16	Cancel the Army's RAH-66 Commanche helicopter program, which the GAO has questioned because of its increased maintenance and other costs.	210	900

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DEF 17	Cancel the C-17 aircraft, which has been under tight scrutiny for its cost overruns, and buy commercial airliners.	120	7,740
DEF 18	Retire excess KC-135 tankers.	30	880
DEF 19	Phase out spending on SEMATECH, a consortium of private companies that develops semiconductor manufacturing technology, which has achieved many of its objectives.	50	1,450
DEF 20	Cut funding for the military space programs such as the Follow on Early Warning System, the Spaceflitter, and the Landsat Remote Sensing Program.	269	3,300
DEF 22	Restructure officer accession programs consistent with the projected smaller force.	110	1,350
DEF 23	Reduce the size of the Army National Guard and Reserve proportionate to active-duty forces.	190	5,270
DEF 24	Restructure Reserve compensation by redefining and reducing drill pay, eliminating dual compensation for reservists employed by the federal government, and eliminating Reserve retirement.	390	2,170
DEF 25	Deny unemployment compensation to those who voluntarily leave military service, which would bring military unemployment guidelines in line with civilian unemployment benefits.	280	1,200
DEF 26	Reduce drills for the roughly 90,000 non-combat Reserve units.	130	690
DEF 27	Reduce government spending for military health care by adjusting capped rates, bringing the cost of health care more closely in line with civilian rates for military beneficiaries under the age of 65.	120	2,570
DEF 28	Revise cost-sharing for military health-care benefits, which would equalize cost-sharing requirements for all outpatient care regardless of whether that care is received in a military or civilian setting, improving efficiency and equity.	270	1,660
DEF 30	Reduce funding for defense environmental programs, which have had very little effect on cleaning up contaminated sites even though funding has increased.	210	1,430
DEF 31	Reduce by 10 percent funding for the DOE's clean-up program, which has been criticized for wasting money on unnecessary administrative and support activities.	310	2,850
DEF 32	Revamp military family housing by increasing reliance on private-sector housing.	50	2,100
DEF 34	Reduce subsidies for morale, welfare, and recreation programs, such as fitness centers, libraries, child care, community programs, and bowling alleys, except in remote areas.	70	1,410
DEF 35	Reduce funding for U.S. forces stationed abroad by increasing host nation support in countries such as Italy, Germany, the United Kingdom, and Spain.	0	12,540
DEF 36	Adopt short, unaccompanied tours for Europe.	220	1,420
DEF 37	Reduce and reshape DOD's civilian work force ratio, which was 1.9:1 in 1992, to match that of the early 1980's, in which the ratio of military personnel to civilian personnel was 2:1.	820	24,820

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DEF 38	Recover the full cost of military exports, by reinstating a policy of full cost recovery to U.S. foreign military sales programs, reversing recent changes in U.S. laws and regulations.	170	1,570
DEF 39	Reduce the State Department's funding and eliminate miscellaneous foreign affairs activities that include the U.S. Institute of Peace, the Asia Foundation, the East/West Center, and the North/South Center.	110	1,160
DEF 40	Reduce AID assistance by targeting aid to lower-income countries with economic policies designed to encourage growth through free markets and trade.	40	1,310
DEF 41	Reduce P.L. 480 Title I sales and Title III grants, an ineffective means of delivering development assistance, and focus on humanitarian and emergency feeding services under P.L. 480.	350	3,020
DEF 42	Eliminate overseas broadcasting and reduce exchange programs such as Radio Free Europe, Voice of America, and Radio Marti.	-90	2,150
DEF 43	Reduce Eximbank subsidies by 50% and target regions underserved by private-sector financing.	50	1,380
DOM 01	Cancel the international space station program.	1,400	10,400
DOM 02	Reduce DOE funding for energy technology development efforts.	85	2,530
DOM 03	Eliminate further funding for the Clean Coal Technology program, which supports research that private businesses have an economic incentive to undertake following the Clean Air Act of 1990.	0	20
DOM 04	Halt acquisitions of crude oil for the SPR, which would still leave SPR with nearly 610 million barrels by the end of 1999 -- enough for energy emergencies.	80	325
DOM 05	Allow private producers to cogenerate electricity at federal civilian facilities and sell off-site any excess electricity generated.	0	65
DOM 06	Eliminate credit subsidies for loans made or guaranteed by the REA, which has largely fulfilled its original goal of making electric and telephone services available in rural communities.	10	260
DOM 07	Eliminate below-cost timber sales from national forests, a subsidy for destructive logging on public lands.	15	235
DOM 08	Abolish the BOM, whose original functions have been taken over by other agencies such as the DOE and the U.S. Geological Survey, and whose remaining information-gathering functions could be handled by private companies.	120	880
DOM 09	Eliminate grants for wastewater infrastructure and state revolving funds.	95	7,115

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DOM 10	De-emphasize permanence in Superfund cleanups; emphasize land-use controls and containment methods, which would reduce expenditures but not sacrifice health or environmental protection.	90	1,140
DOM 11	Make the "polluter pay": substitute private financing for government financing of the Superfund program to the maximum extent possible.	90	1,040
DOM 13	Streamline the USDA Agricultural Stabilization and Conservation Service, the Soil Conservation Service, the FmHA, and the Extension Service by integrating field offices to improve the use of administrative resources, facilities, personnel, equipment, and services.	30	900
DOM 14	Reduce USDA spending for the export marketing and international activities of the Foreign Agriculture Service and the Organization for International Cooperation and Development, which spend tax dollars without significantly aiding U.S. exports.	25	150
DOM 16	End the SBA direct loan and guaranty programs, which have high default rates and provide funds to risky businesses.	360	2,680
DOM 17	Scale back the Rural Rental Housing Assistance Program, a huge subsidy to developers costing twice as much as direct subsidies for existing housing.	40	1,430
DOM 18	Scale back the FmHA Section 502 housing program for rural homeowners by eliminating new direct loans.	300	1,840
DOM 19	Reduce the budget of the Export Administration of the DOC, whose enforcement activities have declined because of the demise of the former Soviet bloc and the elimination of sanctions against South Africa.	5	45
DOM 20	Eliminate the USTTA and the trade promotion activities of the International Trade Administration, which are inefficient subsidies of some American industries to the detriment of others.	120	820
DOM 21	Eliminate the ATP of the DOC, which subsidizes research projects that in most cases would have been undertaken by the private sector without ATP support.	70	830
DOM 22	Reduce federal capital grants for mass transit systems with low ridership; eliminate operating subsidies, which encourage inefficiency and waste.	520	6,880
DOM 23	Eliminate the Airport Grants-In-Aid program, which is now little more than a big pork barrel.	310	6,260
DOM 24	Close the ICC, obsolete since the deregulation of the rail and trucking industries, and transfer its remaining functions to other agencies.	20	140
DOM 25	Eliminate funding for highway demonstration projects, which encourage construction that neither state transportation officials nor the broader federal highway program regard as being of primary importance.	80	2,590

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DOM 26	Eliminate the operating subsidy for Amtrak to encourage its efforts to cut costs and expand revenues.	360	1,900
DOM 27	Eliminate RDA grants, direct loans, and loan guarantees, which are not well-targeted toward low-income or distressed communities and of little national benefit.	30	1,930
DOM 28	Eliminate the EDA, which no longer targets economically distressed areas but responds to political muscle in Congress.	40	1,140
DOM 29	Eliminate the ARC, which duplicates 14 other federal rural aid programs.	10	690
DOM 30	Eliminate the CDBG program, which generates primarily local benefits that should be funded by state and local governments.	150	15,650
DOM 31	Reduce federal support for the TVA, which provides some services beyond the scope of the TVA that should be funded by state, local or private sources.	40	610
DOM 32	Eliminate Community Based Organizations Programs and the Consumer and Homemaking Education program; both are ancillary to core vocational education programs and should be funded locally.	5	190
DOM 33	End four education programs that have largely achieved their purposes: Public Library Construction, Follow Through, Law-Related Education, and Law School Clinical Experience.	5	190
DOM 34	Eliminate the State Student Incentive Grant program which is no longer needed to encourage states to provide more student aid.	35	350
DOM 35	Eliminate Impact Aid for school districts because the economic benefits from federal installations outweigh the demands placed on the schools.	660	4,120
DOM 36	Eliminate funding for mathematics and science education which is not targeted toward children with special needs.	40	1,170
DOM 37	Eliminate 19 grant programs in the DOE as proposed by the NPR, because they duplicate other programs, have achieved their purpose, or are more appropriately supported with nonfederal funds.	30	690
DOM 38	Reduce funding by 50% for the arts and humanities.	390	2,670
DOM 39	Eliminate federal funding for campus-based student aid, which subsidizes university administration costs rather than prepares students for post-graduate employment; redirect half the savings to Pell Grants.	0	2,870
DOM 40	Better target Pell Grant spending by including house and farm equity in calculating family need for financial aid and eliminating the \$5 fee paid to postsecondary schools.	30	700
DOM 41	Eliminate the Senior Community Service Employment program, which offers few benefits aside from income support.	80	1,810

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DOM 42	Consolidate social service programs, e.g., Social Services Block Grant, Community Services Block Grant, Child Care Development Block Grant, Title IV-A "At Risk" Child Care, and reduce funding by 5%.	230	1,120
DOM 43	Reduce the Maternal and Child Health Care Block Grants and the Preventive Health Services Block Grant due to the federal government's increased commitment to other programs directed at maternal and child health and preventive health services.	200	1,970
DOM 44	Better focus funding for research supported by the National Institutes of Health, whose expenditures have increased by 155% between 1983 and 1993, and cut overhead.	490	5,110
DOM 45	Reduce federal rent subsidies by shifting some costs to the states or tenants; reduce public housing operating subsidies.	250	5,230
DOM 46	Freeze the number of rental assistance commitments.	10	5,190
DOM 47	Replace new public housing construction with vouchers, which deliver assistance more quickly, are less costly, and give low-income households more choice of where to live.	0	835
DOM 48	Modify the fee structure for local and state agencies that administer federal housing programs to reflect the actual costs of administration.	190	1,230
DOM 49	Eliminate the LJHEAP; falling energy prices since the 1970s have made this program less urgently needed, if not obsolete.	1,400	7,700
DOM 50	Close or convert inefficient or underused VA facilities where adequate alternative sources of care exist.	70	1,170
DOM 53	Change overtime practices for managers and supervisors who are engaged in criminal investigations and can acquire administratively uncontrollable overtime which pays significantly more than regular overtime.	35	345
DOM 54	Cut salaries of non-postal federal civilian employees by eliminating the January 1995 employment cost-of-living adjustment.	1,700	7,250
DOM 55	Charge federal employees commercial rates for parking.	100	530
DOM 56	Reduce the number of political appointees from 2,900 to 2,000 over the next five years.	75	355
DOM 57	Reduce the overhead rate on federally sponsored university research.	160	1,620
DOM 58	Reduce spending for the High Performance Computing and Communications program.	110	1,230
DOM 60	Repeal the Davis-Bacon Act.	160	3,080
ENT 01	Raise DOE rates for federal hydroelectric power to speed debt repayment by regional PMAs.	0	4,800
ENT 02	Improve pricing for commercial and recreational use of public lands.	140	720

ISSUE #	RECOMMENDATION	One-Year Savings	Five-Year Savings (Millions of Dollars)
ENT 03	Change revenue-sharing formula from a gross- to net-receipt basis for commercial activities on federal lands; the current formula sometimes causes the federal government's cost to exceed its share of receipts.	130	880
ENT 04	Index nuclear waste disposal fees for inflation to prevent shortfalls in the Nuclear Waste Fund; the one-tenth-of-one-cent fee for electric utilities has not changed since 1983.	15	255
ENT 05	Charge an 8% royalty for hardrock mining on federal lands, which is currently free of charge under the provisions of the Mining Law of 1872.	0	280
ENT 06	Lower target prices for subsidized crops by 3% annually; in addition to reducing the deficit, this would encourage farmers to respond to market prices, rather than to government benefits, in making their production decisions.	400	11,050
ENT 07	Eliminate the 0/92 and 50/92 programs, which pay farmers to leave land idle, to reduce surpluses caused by Federal subsidies.	100	1,340
ENT 08	Raise from 15% to 25% each farmer's base acreage ineligible for deficiency payments.	360	3,940
ENT 09	Limit eligibility for farm price support payments to \$40,000 per person.	120	1,280
ENT 10	Reduce USDA export credit loan guarantees and eliminate loans to high-risk borrowers.	-660	1,140
ENT 11	Eliminate the Export Enhancement subsidy program, which has not clearly improved U.S. grain sales and has depressed world commodity prices.	390	4,160
ENT 12	Eliminate the MPP that subsidizes foreign advertising for U.S. agribusiness.	60	500
ENT 13	Reduce dairy price-support costs by increasing producer contributions to \$.25 per hundred-weight in January 1995.	60	1,200
ENT 14	Replace the FCJP with standing authority for disaster assistance.	270	1,660
ENT 15	Reform milk marketing orders and deregulate the price of milk to reduce milk price-support outlays.	90	880
ENT 16	Increase FCC user fees to cover the full cost of the services the FCC provides to license holders.	105	575
ENT 17	Charge a user fee on commodity futures and options contract transactions to cover the administrative costs of the Commodity Futures Trading Commission.	45	310
ENT 18	Grant the government an option to buy shares of depository institutions that convert from mutual to stock form.	65	310
ENT 19	Establish charges for airport takeoff and landing slots.	300	1,500
ENT 22	Reduce subsidies for Stafford Loans by requiring students to pay in-school interest and raising the loan origination fee to 5%.	1,830	11,090
ENT 23	Reduce Stafford Loan spending by including home equity in the determination of financial need	60	400

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
ENT 24	Limit the growth of foster care administrative costs to 10% a year.	0	150
ENT 25	Reduce from 30% to 45% the floor on the federal share of Medicaid, AFDC, and Foster Care and Adoption Assistance payments for high-income states.	5,730	36,000
ENT 26	Require states to limit the growth in the number of nursing home beds; adding such beds increases the number used, and limiting the increase could help curb further growth in Medicaid outlays.	35	625
ENT 27	Reduce matching rates to 50% for administrative costs in the Medicaid program.	430	2,650
ENT 28	Gradually eliminate the disproportionate share adjustment for hospitals in Medicare's prospective payment system; data on hospitals' costs provide only limited support for any such adjustment.	600	12,550
ENT 29	Reduce Medicare's payments for the indirect costs of patient care that are related to hospitals' teaching programs by reducing the teaching adjustment payment to 3%.	2,050	13,550
ENT 30	Reduce Medicare's direct payments for medical education.	170	1,070
ENT 31	Eliminate Medicare's additional payments to hospitals classified as "sole community hospitals."	210	1,330
ENT 32	Freeze Medicare's hospital insurance payment rates and limits for one year.	1,300	8,450
ENT 33	Continue Medicare's transition to prospective rates for facility costs in hospital outpatient departments.	45	340
ENT 34	Increase from \$100 to \$150 and index to the CPI, Medicare's SMI deductible for physician services.	790	9,290
ENT 35	Increase the SMI coinsurance rate from 20% to 25%.	2,630	16,250
ENT 36	Collect 20% coinsurance on clinical laboratory services under Medicare.	685	6,180
ENT 37	Collect 20% coinsurance on all home health and skilled nursing facility services under Medicare.	2,305	20,450
ENT 38	Eliminate Medicare payments to hospitals for enrollees' bad debts which would give hospitals a financial incentive to expand their debt collection efforts.	270	1,750
ENT 39	Increase the premium for physicians' services under Medicare SMI from 25% to 30% of program costs.	0	17,370
ENT 41	Bring federal employee retirement benefits in line with private practices: defer COLAs until age 62, limit some COLAs below inflation, modify salary base used to set pensions, restrict agency match on Thrift Plan Contribution to 50%, and raise employee contributions.	930	10,690
ENT 42	End Trade Adjustment Assistance, which encourages firms to continue imprudent plant investment and causes workers to delay seeking new employment.	170	990
ENT 43	Improve targeting of child nutrition subsidies to ensure benefits go to intended beneficiaries.	250	3,070

ISSUE #	RECOMMENDATION	One-Year Savings	Five-Year Savings (Millions of Dollars)
ENT 45	Reduce from \$20 to \$15 the exclusion from income in calculating SSI payments.	180	1,000
ENT 46	Eliminate the \$50 child-support payment to AFDC families.	110	630
ENT 47	Reduce the federal matching rate to state governments and increase fees in the Child Support Enforcement program.	0	2,740
ENT 51	Consider veterans' compensation when determining SSDI payments.	75	555
ENT 52	End veterans' disability and death compensation awards in future cases when a disability is unrelated to military duties.	20	950
ENT 53	End compensation payments for certain veterans with low-rated disabilities.	640	3,250
ENT 54	Eliminate "sunset" dates on four veterans' provisions in OBRA 1993 to make the savings continuous.	0	190
ENT 55	Charge a penalty for early redemption of savings bonds.	15	240
Total Savings from CBO, 1994:		44,469	506,770

I. CONGRESSIONAL BUDGET OFFICE
B. Reducing the Deficit: 1993 Spending and Revenue Options

DEF 30	Eliminate payments for independent research and development, an indirect and inefficient way to generate defense-related research, substitute \$7.5 billion in direct R&D grants for basic DOD research.	1,590	14,740
DEF 31	Cancel the National Aerospace Plane, which has encountered cost overruns and technical difficulties; a 1990 NASA advisory committee argued it did not merit "high schedule urgency."	80	650
DEF 41	Reduce per-capita use of hospital services by dependents of active-duty personnel to rates more characteristic of the civilian sector.	310	2,070
DEF 43	Charge retired military personnel premiums of \$90 per month per family for taxpayer-supported health insurance.	480	2,480
DEF 46	Reduce operating tempo and unit training costs.	290	1,790
DEF 48	Downsize the recruiting establishment: consolidate active and Reserve commands; increase sharing of recruitment support (vehicles, etc.); reduce the number of supervisory and overhead offices; and improve allocation of resources.	90	1,250
DEF 51	Assign additional base-support duties to military personnel in peacetime.	260	1,760
DEF 54	Increase the states' share of spending for the Army National Guard to 10% of operating costs.	440	2,450

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DOM 01	Cancel the Earth Observing System that promises limited benefits at high costs.	140	1,250
DOM 55	Prohibit major V/A health-care facility construction when care can be purchased from existing facilities.	0	95
DOM 61	Change vacation leave and overtime practices for certain managers and supervisors.	90	540
ENT 16	Require cash repayment of USDA commodity loans and allow program administrators to set local repayment rates closer to prevailing market prices so the federal government no longer covers additional, unnecessary costs.	0	320
ENT 21	Charge for Federal Deposit Insurance Corporation examinations of state-chartered banks.	200	1,380
ENT 37	End Federal Employees' Health Benefits program's pay-as-you-go policy and prefund federal retirees' health insurance to improve management and provide a better view of government operating costs.	0	11,600
ENT 38	Reform Federal Employees' Health Benefits Program by adopting a prospective payment system.	0	7,700
ENT 48	Charge a fee for Medicare SMI claims not billed electronically.	150	550
	Total Savings from CBO, 1993:	4,120	50,625
	TOTAL SAVINGS FROM CBO:	48,589	560,395

II. NATIONAL PERFORMANCE REVIEW RECOMMENDATIONS

President's Fiscal Year 1995 Budget

COM 1	Impose user fees to help recover the costs of administering living marine resources and protecting fishing resources.	82	375
DEF 1	Recover Corps of Engineers costs for processing commercial applications and establish goals for solid-waste reduction and recycling.	49	49
DOE 1	Consolidate and close unneeded facilities and laboratories and emphasize post-Cold War priorities.	862	2,150
HHS 1	Increase efforts to collect outstanding debts owed to the Social Security Trust Fund by allowing the SSA to use debt collection-tools available under the Debt Collection Act of 1982.	60	335
HHS 3	Grant HCFA authority for competitive open bidding of Medicare claims processing contracts to reduce costs, improve quality of service, and eliminate inefficiencies and conflicts of interest.	80	985

ISSUE #	RECOMMENDATION	One-Year Savings	Five-Year Savings
		(Millions of Dollars)	(Millions of Dollars)
HUD 3	Limit rent increases to those cases where existing rents are less than the local market average rent for non-luxury housing.	110	110
INT 1	Improve the reclamation of abandoned mines through administrative and legislative strategies to reduce duplication, increase suites' authority, and distribute reclamation funds where they are needed most.	15	15
INT 3	Improve through legislation the Mineral Management Service's royalty collections to enable penalties to be assessed for substantial underpayments.	2	28
DOL 1	Extend DOL's assisted re-employment program to help disabled federal employees return to productive careers, thereby reducing long-term benefit costs to the government.	7	125
DOL 2	Amend the Federal Employees Compensation Act to reduce fraud by (1) making it a felony to lie on benefit applications, (2) making people convicted of defrauding the program ineligible for benefits, and (3) making people who are incarcerated ineligible for benefits.	1	22
USIA	Restructure core program activities of the USIA.	3	3
DOT 4	Rescind FTA earmarked funds unobligated after three years.	5	131
DOT 6	Eliminate federal funding of two FAA post-secondary education programs.	10	45
TREAS 4	Adjust for inflation civil monetary penalties.	17	126
VA 4	Enhance VA's electronic data interchange technology and improve management of VA's supply inventories.	13	12
VA 5	Recover VA administrative costs from premiums and dividends from three VA life insurance programs.	29	29
TOTAL NATIONAL PERFORMANCE REVIEW SAVINGS:		1,345	4,540

III. PRESIDENT BILL CLINTON
A Vision of Change for America
Budget of the United States, Fiscal Year 1994

FEE 03	Require slaughterhouses and processing plants with overtime shifts to reimburse the government for the full cost of federal meat and poultry inspections.	104	520
FEE 04	Charge identifiable beneficiaries a fee for certifying the safety and efficacy of drugs and medical devices.	167	1,400
FEE 05	Establish a BATF user fee to pay for approving beverage labels and performing laboratory tests to ensure compliance with beverage content standards.	5	25
GM 6	Spend previously appropriated prison construction funds before appropriating new amounts.	7	580

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
GM 10	Phase out one operating diffusion plant, lower federal costs for power purchased for federal uranium enrichment operations, and speed up the purchase of highly enriched uranium from the republics of the former Soviet Union.	137	1,149
GM 40	Restore 1:9 ratio for GI Bill benefits by reducing the federal contribution to the post-secondary education fund.	78	444
H 21	Simplify HHS administrative procedures by updating Medicare payments to hospitals for inpatient care on a calendar-year basis.	1,100	6,760
TOTAL SAVINGS FROM PRESIDENT CLINTON (Some numbers updated by CBO):		1,598	10,878

IV. CURRENT CONGRESSIONAL PROPOSALS

A. A COMMON CENTS PLAN

Tim Penny (D-MN)/John Kasich (R-OH) Bipartisan Task Force

NS 02	Reduce Army Corps of Engineers' division offices from 11 to 6.	15	105
NS 03	Rescind funds for Army Helicopter Improvement Program which the DOD terminated in FY 1989 only to see it restored by Congress; both the Clinton and Bush administrations requested that no funds be appropriated for this program.	130	130
NS 04	Rescind funds for MK-19 grenade launcher.	20	20
NS 06	Rescind funds for mobile inshore underwater vans.	15	15
NS 07	Rescind funds for P-3 (aircraft that patrol submarines) upgrades.	20	20
NS 12	Reduce foreign military financing consisting of both loan subsidies and grants to Senate level which is more than adequate.	25	125
NS 14	Change U.N. administrative and assessment procedures to reduce costs to the federal government.	6	36
PCNRS 08	Put the FFRDC under the Competition in Contracting Act of 1984 to eliminate the FFRDC monopoly and to take advantage of competition provided by private-sector firms.	0	0
PCNRS 09	Eliminate funds for modular high temperature gas reactor which a National Academy of Sciences panel recommended not funding.	6	65
PCNRS 10	Establish DOE Laboratory Closure Commission.	0	0
PCNRS 11	Reduce fusion energy research and development by 20% because commercial markets for fusion energy R&D may be years away, and large-scale demonstration projects may be premature.	75	375

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
PCNRS 12	Reduce coal and other fossil fuel research and development which duplicates the efforts of the private sector and which in the past has proved both costly and unproductive.	30	500
PCNRS 19	Reduce BLM Corps of Engineers low priority land and water projects.	102	432
PCNRS 21	Create emergency funds for disaster relief by requiring each agency to put aside 1% of its budget, thereby reducing the need for deficit-increasing emergency expenditures when emergencies actually occur.	15	375
PCNRS 22	Close antiquated weather offices more expeditiously; the current process is costly and takes up to two years.	20	100
PCNRS 23	Privatize NOAA research fleet, which the GAO has criticized for being too expensive to maintain and operate as compared to the services of private-sector ships.	50	250
PCNRS 24	Create a single polar satellite system to reduce duplication among current and proposed polar satellite programs.	50	300
PCNRS 25	Rescind funding for unrequested and unauthorized NOAA add-ons which serve only a small, specific group within a local area.	50	145
PCNRS 26	Merge BLM and Corps of Engineers water management responsibilities, streamlining government and reducing administrative overhead.	0	0
PCNRS 27	Reduce agricultural research buildings and facilities account to requested level.	1	5
PCNRS 29	Eliminate FHWA National Recreational Trails Fund, which is not germane to the statutory role of the FHWA.	0	0
GM 01	Strengthen and restructure NASA management to encourage more joint federal-private investment and to downsize the bureaucracy through increased contracting-out, relaxed regulations to encourage private investment and reducing personnel.	300	1,500
GM 04	Close 1,200 of the 15,000 USDA field offices worldwide.	109	1,600
GM 05	Streamline HUD operations.	33	167
GM 09	Improve management of V/A hospitals by adopting a Prospective Payment System which would classify each patient in a Diagnosis-Related Group that would entitle the hospital to a fixed payment designed to reflect the average cost of efficient care for such a patient.	86	1,426
GM 12	Terminate State Justice Institute which has no clear federal purpose.	3	68
GM 17	Limit departing members' of Congress purchase of office equipment and furnishings from their district offices.	1	5
GM 23	Cut federal workforce by 252,000 over the next five years.	800	26,700

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
GM 30	Raise SEC fees to cover the cost of registering securities sold to the public. Total "A COMMON CENTS PLAN":	44 2,006	240 34,704
B. THE FISCAL RESPONSIBILITY ACT OF 1994 Dan Schaefer (R-CO)/Tim Penny (D-MN)			
AGR 01	Eliminate tobacco support program.	14	70
AGR 06	Terminate the Agriculture Credit Insurance Fund, which has excessively high default rates.	0	3,300
AGR 16	Eliminate the Conservation Reserve Program, which pays farmers to leave lands idle, to reduce environmental damage encouraged by other subsidy programs.	1,600	9,300
DEF 03	Reduce spending on intelligence activities by 5%, which evidence indicates would not be injurious to U.S. intelligence-gathering efforts.	193	4,720
DEF 05	Reduce the number of Navy escort ships since post-Cold War necessities do not require such a large fleet.	200	6,610
DEF 07	Cancel procurement of additional submarine finding TAGOS ships.	10	320
DEF 08	Cancel procurement of the mine hunting ship MHC(V).	0	170
DEV 04	End MBDA subsidies for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	9	49
DEV 05	End Disaster Relief Payment subsidies for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	1	5
GM 02	Sell most of the government's 1,200 civilian aircraft which are currently used to provide transportation for agency executives and staff.	2,000	6,000
GM 03	Sell most of the government's 340,000 non-tactical, non-postal vehicles.	2,650	9,250
HEA 07	Eliminate most Public Health Service subsidy programs for health profession education but continue to target minority or economically disadvantaged student enrollment at medical schools.	180	970
HOU 07	Eliminate HUD special purpose grants, which have too often become a conduit for pork-barrel projects as exemplified in the Earthquake Relief Bill of 1994.	25	990
HOU 09	Reduce FHA losses by improving underwriting, monitoring, and enforcement efforts in single and multi-family housing programs.	564	4,780
HOU 10	Phase-out GNMA over five years; most borrowers can already obtain the required mortgage insurance for FHA or VA loans at reasonable rates from the private sector.	100	2,000

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
HOU 11	Improve fair market value formula for Section 8 Rental Assistance Payments Program to bring it in line with private-sector practices.	1,440	7,250
HOU 13	Eliminate the HUD Utility Adjustment Payment Program to families who are over-paid or double-paid for utilities because they receive state and other federal utility help.	150	850
HOU 14	Require competitive bidding for all Comprehensive Improvement Assistance Program funds and create performance-based rather than needs-based criteria for further awards.	300	2,050
HOU 15	Reform and cut Section 221(d)(3) and Section 236 subsidized loans to developers that would restore the original prepayment option to allow owners a prepayment option and relieve the federal government's responsibility to subsidize loans for the benefit of tenants.	320	2,000
HOU 16	Eliminate funding for Section 8 vouchers on dwellings not meeting HUD's housing quality standards.	100	500
ITL 07	Return to the Treasury any foreign economic assistance funds not expended within three years of obligation.	2,000	5,000
LEG 01	Reduce congressional franking by 50%. Members receive a very generous franking account and most franked mail goes out in unsolicited mass mailings.	20	100
LEG 03	Eliminate the Joint Committees on Printing, the Library of Congress, and the Joint Economic Committee, which do not produce any legislation and are superfluous to the legislative process.	26	26
LEG 04	Reduce GAO funding by 25% by contracting out GAO services to private companies.	99	495
LEG 07	Reduce maximum number of full-time personal staff from 18 to 16 to force congressional offices to become more efficient, and eliminate non-essential services.	23	115
LEG 08	Reduce committee staff funding by 25%.	18	90
LEG 09	Reduce members of Congress' salaries to \$100,000 per year.	2	8
LEG 10	Eliminate the Congressional Office of Technology Assessment which provides information duplicated by the Executive Branch, congressional committees, and the Library of Congress.	21	105
LEG 11	Reduce CBO funding by 10%.	2	11
LEG 12	Reduce Architect of the Capitol funding by 10% to encourage efficiency and the elimination of waste.	10	50
SCI 02	Terminate Coastal Zone Management Grants and National Sea Grants College programs, which have achieved their objectives.	55	345
SCI 03	End NIST grants for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	39	199

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
SPA 01	Cancel a spacecraft development project in NASA's space science and applications program, either the Advanced X-Ray Astrophysics Facility or the Comet Rendezvous Asteroid Flyby/Cassini mission.	140	1,250
SS 04	Improve reporting of workers' compensation payments	0	129
TRA 01	Prohibit expenditure of federal funds on metric system highway signing.	150	150
TRA 06	Terminate the Essential Air Service program, which subsidizes air travel to vacation resorts and small cities within driving distance of regularly-scheduled commercial flights.	25	180
TRD 03	Eliminate debt restructuring under the Enterprise for the Americas Initiative.	0	490
TRD 05	End federal export enhancement bonuses for individuals with taxable income over \$120,000 and corporations with incomes over \$5 million.	1,200	6,000
WEL 06	End federal unemployment subsidies for individuals with taxable incomes over \$120,000.	400	1,650
WEL 10	Require a two-week waiting period for unemployment benefits nationwide in line with states.	0	4,600
Total Schaefer/Penny:		14,086	82,177

C. THE REPUBLICAN BUDGET INITIATIVE, FISCAL YEAR 1995
House Budget Committee, Republican Caucus
 March, 1994

NS-4	Reform multilateral development banks (excluding IDA) by withholding all new capital contributions to the World Bank, the Asian Development Bank, the Asian Development Fund, the International Finance Corporation, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the African Development Fund, and allow them to use their "reflows" or loan repayments to make new loans.	9	705
NS-5	Reform the IDA by restricting funding to the FY 1994 level.	13	1,663
NS-7	Freeze the Peace Corps at its FY 1994 level.	5	86
NS-10	Reduce International Peacekeeping.	122	782
NS-11	Reduce U.S. contributions to international organizations to 95% of the FY 1994 level.	65	573
NS-12	Reduce by 25% USIA funding for international exchange programs, funding more than doubled during the 1980s; and since 1990 it has grown by an additional 45%.	31	276
NS-15	Reduce migration and refugee assistance.	47	463
HE-1	Consolidate more than 80 job training programs into seven broad block grants to eliminate program overlap and better target resources.	589	7,565

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
HE-6	Eliminate operating subsidies for vacant public housing.	26	261
HE-7	Reform Section 203 of the Housing and Community Development Amendments of 1978 to allow HUD to dispose of the backlog of multifamily units in a timely manner.	425	425
HE-13	Privatize minimum- to medium-security prisons known as Federal Correctional Institutions; the experience of state governments is that privatization reduces operating costs by 3 to 15%.	81	273
HE-14	Reduce 70 positions in the U.S. Marshals Service; eliminate the political appointment process and promote professionally-trained deputies to U.S. marshals.	5	25
HE-15	Eliminate the Legal Services Corporation, an independent, non-profit organization which is already partly funded through private sources and interest on certain escrow accounts.	362	2,113
HE-17	Reduce funds for the BATF.	2	10
HE-18	Place a 15% surcharge on judgments for civil debt collected by the Justice Department.	29	145
HE-7A	Eliminate Pell Grants for prisoners, to free up funds for low- and middle-income students; the federal government already spends almost \$100 million on prisoner education.	9	184
HE-14A	Reduce funding for the following housing programs: Lead-Based Paint Grants, Public Housing Modernization, Severely Distressed Public Housing, Congregate Services Program, and Housing for the Elderly; and reform Low-income Housing Preservation.	3	4,469
HE-16A	Permanently extend U.S. Customs user fees to partly cover the cost of processing merchandise and passengers by the Customs Service.	0	2,420
HC-4	Extend the OBRA 1993 Medicare Part B premium at 25% of program costs.	0	291
NRS-3	Reduce the general science and research activities for nuclear physics.	44	369
NRS-4	Limit the rate of growth at 1% less than inflation for the NSF.	12	346
NRS-6	Sell the Alaska Power Administration; producing and selling electricity is a commercial, not a government activity.	0	850
NRS-7	Sell the Southeastern Power Administration; producing and selling electricity is a commercial, not a government activity.	0	1,100
NRS-8	Restructure the Naval Petroleum Reserves at Elk Hills to ease transition into the private sector after the existing contract expires in 1995.	17	143
NRS-14	Eliminate atomic vapor laser isotope separation program.	100	500
NRS-15	Reduce funding for watershed planning, river basin surveys, and investigations of the Corps of Engineers.	414	3,274
NRS-16	Reduce funding for Soil Conservation Service Watershed and flood prevention operations.	112	2,255
NRS-18	Impose a moratorium on land purchases by the federal government which already owns more than 30% of U.S. land.	85	1,066

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
NRS-20	Freeze funding for NOAA.	40	805
NRS-24	Reduce funding for USDA resource conservation and development, the Great Plains conservation program, the agricultural conservation program, and the forestry incentives program.	61	610
NRS-29	Reform FmHA by eliminating below-cost farm loans and by repealing the provision that requires the FmHA to continue lending after a loan default or write-down.	75	423
NRS-31	Terminate annual direct assistance to Northern Marianas Islands.	0	84
NRS-2A	Charge an aeronautical chart fee to support the costs of maintaining and distributing aeronautical charts.	3	15
PC-1	Replace all FmHA direct loans with loan guarantees; add 1% for FmHA guaranteed loans; increase to 30% of income payments for FmHA direct loans; turn-over originating and servicing for FHA loans to either private industry or a government-sponsored enterprise, such as Fannie Mae, while retaining the federal government's role as a credit enhancer.	1,686	2,857
PC-4	Create a privately-owned air traffic control corporation.	6,070	32,323
PC-5	Consolidate community, regional and economic development funds into a single, formula economic development block grant, which would include Community Development Block Grants, non-defense activities of the EDA, the ARC, and the economic development activities of the TVA and the REA.	40	2,260
PC-9	Cut Public Telecommunications Facilities, which achieved its original goal of providing public broadcasting to remote areas.	3	85
PC-11	Reduce the current federal fuel tax subsidy for ethanol which studies have shown to have a nearly 40% greater "greenhouse" emission than gasoline.	338	1,690
PC-13	Eliminate funding for Coast Guard alteration or removing of bridges determined to be obstructions to navigation.	3	51
PC-14	Extend permanently OBRA 1990 surcharge of 50% of patent and trademark fees.	0	174
PC-15	Impose fees on federal and federally-sponsored enterprises, which enjoy certain privileges that give them a competitive edge against their purely private counterparts.	59	2,570
PC-16	Enforce fee collection for harbor maintenance.	0	400
PC-17	Increase customs tonnage duty fees by 150% to offset the costs of services provided to the maritime industry by the Coast Guard.	100	500
GM-1	Consolidate into a single land management agency the agencies which oversee federal lands that are of national significance to reduce the number of field offices, consolidate Washington, D.C., offices, and eliminate duplication and non-essential functions.	141	3,226

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
GM-2	Eliminate the National Biological Survey, which has not been authorized and is not following the proposed guidelines offered by the Secretary of the Interior, and transfer the research function of inventorying and monitoring plants and animals to the NSF.	115	872
GM-3	Eliminate the U.S. Geological Survey.	580	3,261
GM-4	Downsize the Minerals Management Service in light of the greatly reduced sale of Outer Continental Shelf leasing.	65	465
GM-5	Downsize the Bureau of Reclamation.	50	427
GM-6	Reform the BIA by transferring the direct management of tribal commodities to the tribes themselves, and phase out government financial assistance for management costs and rely on block grants rather than engaging in the direct provision of services or the direct supervision of tribal activities.	30	215
GM-8	Restructure and consolidate field offices of non-farm agencies.	24	535
GM-12	Eliminate the Administrative Conference of the United States, which conducts studies of the procedures that agencies and departments use and makes formal recommendations for improvements which are often ignored by both the Executive and Legislative Branches.	2	10
GM-14	Repeal successorship provisions in federal service contracts which requires covered contractors and their successors to provide wages and benefits at least equal to the locality's prevailing standards or those in a collective bargaining agreement of the previous contractor.	190	1,060
GM-15	Reform government information dissemination and printing improvement by transferring the position and functions of the Public Printer from the Legislative Branch to the Executive Branch of the federal government.	0	.230
GM-17	Impose a moratorium on construction and acquisition of new federal buildings and begin aggressive negotiations for existing and new leases to further reduce costs.	0	1,578
GM-18	Cap Senior Executive Service accrued leave.	6	68
GM-26	Reduce by 25% appropriations for the Legislative Branch.	287	1,646
GM-27	Reduce by 15% appropriations for the Executive Office of the President.	46	244
GM-29	Eliminate SBA tree-planting grants.	0	74
GM-30	Eliminate SBA earmarks that were not awarded competitively, nor authorized, nor part of SBA's overall mission.	0	142
GM 34	Freeze overhead expenses for five years.	4,192	27,641

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
GM 35	Reform federal procurement practices and regulations according to the NPR recommendations. Total "Republican Budget Initiative," Fiscal Year 1995:	544 17,357	10,600 129,973

D. REPUBLICAN MEMBERS, HOUSE BUDGET COMMITTEE
Cutting Spending First, March 1993

GM-3-6	Halt unfunded mandates on state and local governments.	0	0
H-1-4	Repeal recently passed federal mandates that increase state costs of administering nursing homes.	174	1,200
H-1-5	Reduce use of emergency rooms as primary care facilities by allowing states to establish managed care for Medicaid similar to Arizona's program.	0	10,000
H-3-8	Institute malpractice limits and hold supplementary medical insurance rates at 93%, except primary care.	1,200	14,900
NS-1-2	Make technical changes in the U.S. Moscow embassy.	290	487
	Total Savings From Republican Members, House Budget Committee:	1,664	26,587

E. LEGISLATIVE SOURCES
MEMBERS, 103RD CONGRESS

S 413, S 435	Deny cost-of-living adjustment to pay of members of Congress for one year. [Sens. Wellstone (D-MN) and DeConcini (D-AZ)]	2	2
HR 465	Authorize the Secretary of Treasury to enter into contracts to procure services for locating federal funds in dormant accounts in financial institutions. [Rep. Lewis (R-FL)]	100	500
HR 602	Terminate U.S. assistance to the National Endowment for Democracy. [Rep. Kanjorski (D-PA)]	50	250
HR 1483	National Defense Stockpile Modernization Act of 1993. [Rep. Inglis (R-SC)]	5,000	5,000
HR 1487	Limit the amounts obligated or expended for travel expenses for officers and employees of the federal government. [Rep. Inglis (R-SC)]	585	2,800
HR 1552	Repeal the Helium Act and require the Secretary of the Interior to sell federal real and personal property held in connection with activities carried out under the Helium Act. [Rep. Cox (R-CA)]	1,720	1,720

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
S 457	Prohibit direct federal financial benefits and unemployment benefits for illegal aliens and end	2,838	14,000
HR 1620	federal mandates for states to provide for illegal aliens. [Sen. Exon (D-NIE), Rep. Dreier (R-CA)]		
HR 3060	Require that federal employees be paid by electronic funds transfer or any other method determined by the Secretary of Treasury to be in the interest of economy or effectiveness. [Rep. Darden (D-GA)]	3	14
HR 3128	Abolish the National Board for the Promotion of Rifle Practice and eliminate the promotion of civilian marksmanship by the DOD. [Rep. Maloney (D-NY)]	3	13
HR 3163	Enhance federal debt collection by enacting into law OMB circular A-129, which provides for establishing a sound credit management system using private collection agencies, credit bureaus, and other needed credit and collection reforms. [Rep. Pallone (D-NJ)]	3,131	15,655
HR 3513	Terminate DOE's gas turbine-modular helium reactor program. [Rep. Byrne (D-VA)]	12	60
	Total, Individual Members of the U.S. Senate and House of Representatives:	13,444	40,014
	TOTAL SAVINGS FROM CONGRESSIONAL SOURCES:	48,557	313,455

V. PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL (GRACE COMMISSION)

January, 1984

ADP 01	Create Office of Federal Information Resources Management; develop government-wide information technology policy.	0	0
ADP 07	Improve ADP personnel recruitment and management.	0	0
ADP 17	Accelerate IRS acquisition of latest ADP technologies.	0	0
ADP 18	Adopt other ADP recommendations, such as developing systems to curtail abuse of federal employment compensation and improving DOD inventory management.	0	0
ARMY 04	Reduce permanent change-of-station moves authorized for advanced officer training through greater use of correspondence courses.	20	65
ARMY 06	Modify the "up or out" system to reduce outlays for recruitment and training of new officers.	118	387
ARMY 09	Cancel the Learning Resource Center program, which provides non-essential training to DOD civilian and military employees at taxpayer expense.	10	34
ASSET 03	Increase the use of electronic funds transfers and other means to improve cash collection.	335	1,581

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
ASSET 05	Expedite disposal of Commodity Credit Corporation inventory by eliminating the de facto veto power that the State Department, USDA and AID each exercise over the humanitarian assistance program (P.L. 480).	134	521
ASSET 08	Provide agencies with financial incentives to improve cash management and cash flow forecasting.	0	0
ASSET 11	Require federal lending agencies to charge fees on direct loans to cover loan origination, servicing, and delinquency.	1,010	2,887
ASSET 17	Require all new credit programs to contain sunset provisions whereby the program would automatically expire at the end of five years.	0	0
ASSET 27	Offset delinquent debt owed to all federal agencies against IRS tax refunds.	58	398
ASSET 29	Charge interest and penalties on delinquent debt.	545	1,085
BANK 07	Reduce Export-Import Bank exposure to interest rate fluctuations by better matching the maturities of its fixed-rate assets and liabilities.	0	0
BANK 15	Eliminate RRB field offices and transfer management of the benefit program to SSA.	8	26
BANK 17	Eliminate divided authority in RRB management by establishing a single chief executive with operating responsibility for the agency.	1	3
BANK 24	Dissolve the NCUA's Central Liquidity Facility and encourage credit unions to use the Federal Reserve System (the Fed) as their central bank.	1	5
BANK 27	Consolidate the bank regulatory functions of the OCC, FDIC, and the Fed into a single, new agency, the Federal Banking Commission.	17	58
BANK 28	Reduce regulatory examination costs 3.33% annually by requiring certified public audits and accrual accounting, improving computerized monitoring, and other measures.	7	24
BANK 29	Transfer Federal Reserve examination and supervisory functions to the OCC.	2	7
BANK 31	Establish a common service organization responsible for the automated data processing operations of the OCC and FDIC.	1	3
BANK 38	Remove certain tax exemptions from the farm credit system.	196	648
CCE 02	Close unneeded Coast Guard stations.	31	103
CCE 05	Close underutilized black lung offices.	0	0
CCE 07	Eliminate Customs Inspectors not requested by the Treasury Department.	0	0
CCE 08	Close unneeded offices of the Food Safety Inspection Service.	3	8
CCE 11	Repeal congressionally mandated EPA personnel levels.	0	0
CCE 13	Eliminate requirements for Executive Branch to produce reports for Congress that are expensive and unnecessary.	2	6
CCE 16	Repeal minimum personnel ceilings in appropriate agencies.	0	0

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
COM 07	Lower Patent and Trademark Office hiring goals while reducing average processing time from 24 months to 18 months.	0	9
COM 10	Privatize conversion of raw LANDSAT data into maps and charts.	103	298
CONST 02	Revise Council on Environmental Quality regulations for Environmental Impact Statements by deleting the requirement that the lead agency or applicant evaluate alternatives not within its jurisdiction.	10	33
CONST 05	Monitor federal construction project mitigation outlays to ensure they are not excessive and are used solely to offset environmental damage, not to improve pre-existing environmental quality.	300	993
CONST 08	Eliminate duplicative historic preservation reservations.	40	132
CONST 09	Repeal section 4(f) of the Department of Transportation Act of 1966, which requires consultation with the Secretaries of Interior, HUD, and USDA before the FHWA can approve the use of publicly owned land for highway construction.	8	25
CONST 10	Eliminate duplicative floodplain requirements for federal construction.	6	14
CONST 11	Amend the Safe Drinking Water Act to eliminate EPA's veto power over projects and programs and instead rely on the National Environmental Policy Act process to address water quality issues.	0	2
CONST 13	Use technological innovations to reduce highway noise barrier costs while maintaining adequate noise reduction.	261	703
CONST 14	Revise policies, regulations, and guidelines governing the disposal of dredged material in open waters (including the oceans) to achieve a better balance between environmental protection and project costs.	424	574
CONST 15	Amend section 404 of the Clean Water Act to eliminate duplication and delays in the issuance of construction permits for federal and federal-aid projects.	34	114
CONST 16	Amend Wild and Scenic Rivers Act to cover only actions that would "significantly impact" rivers already designated as part of the National Wild and Scenic Rivers system.	0	2
CPSC 01	Eliminate overlapping responsibilities and reduce administrative positions in the Consumer Product Safety Commission (CPSC).	1	4
CPSC 03	Require the CPSC to establish its own data processing capability.	0	1
DOE 03	Reduce DOE micromanagement of government-owned, contractor-operated facilities by redirecting DOE's principal attention to defining missions, objectives, and schedules.	140	463
DOE 06	Improve administration and close-out of federal energy grants.	0	0
DOE 07	Exempt Strategic Petroleum Reserve oil from Cargo Preference Act requirements, which increase the government's cost of importing foreign oil.	38	213

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
DOE 18	Improve the effectiveness of DOE security while reducing administrative costs by using the government-wide Defense Industrial Security Program rather than DOE's independent clearance system.	15	50
DOE 20	Cease regulation of oil pipeline rates.	4	13
ED 03	Structure the Department of Education's debt collection operation as an independent unit. Authorize the use of private attorneys to recover uncollected receivables. Train collection personnel in the latest methods. <i>(Savings deleted to avoid duplication with HR 3163.)</i>	0	0
ED 04	Restructure the Department's unwieldy discretionary grant award process.	0	0
EPA 02	Speed delegation to the states of EPA's enforcement activities, changing EPA's role from that of national program implementer to that of national program manager.	5	18
EPA 03	Consolidate EPA categorical grants into a single grant and reduce federal funding by 25% to encourage efficiency and innovation in state environmental programs.	2	2
EPA 04	Issue class or general permits for the storage and treatment of hazardous waste; and expedite approval of general permitting rules for minor water discharges; discontinue National Pollutant Discharge Elimination grants to unqualified states.	13	43
EPA 05	Improve contract management by holding project officers responsible for the total result of contract work in terms of quality, cost, and schedule.	19	63
EPA 06	Close and merge duplicative regional laboratories.	21	22
EPA 08	Close Ada, OK, research lab and Grosjean Isle, MI, field station.	4	7
EX 06	Introduce competition in the Section 8(a) program, which awards government contracts to minority and socially-disadvantaged businesses; eliminate SBA as middleman.	254	838
EX 07	Incorporate private-sector practices in U.S. Government foreign exchange transactions.	146	438
EX 08	Eliminate cargo preference provisions of the Merchant Marine Act for all P.L. 480 ("Food for Peace") shipments.	118	392
EX 11	Pay military trainees with government traveler's checks rather than cash to decrease government borrowing requirements and save interest.	0	1
FEMA 02	Increase disaster insurance premiums in direct proportion to the amount of coverage purchased and eliminate disaster assistance grants to states, local governments, and individuals for insurable items.	23	276
FEMA 03	Phase out U.S. Fire Administration grant programs, which cannot be properly evaluated due to the diversity of local fire hazard conditions and lack of measurable program objectives.	3	10
FF 01	Establish uniform federal feeding policy, cost accounting, and management information systems to achieve government-wide economies and eliminate duplication of services and payments.	0	0

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
FMFG 01	Include off-budget entities to reflect the true level of federal obligations and activities. Establish a separate Office of Federal Management within the Executive Office of the President to replace the Office of Management and Budget.	0	0
FMS 05	Improve planning and budgeting for capital expenditures and assets (e.g., land, buildings, facilities, equipment, vehicles, R&D, and education & training).	0	0
FMS 06	Implement a process within the Executive Branch that links long-term presidential objectives, budgeting, and agency plans to improve resource allocation.	0	0
FMS IV	Shift to a biennial budget process and multi-year program authorizations.	0	0
FRS 01B	Increase federal military retirement age from the current provision of 20 years of service at any age to age 62.	1,500	4,525
FRS 03B	Combine military and civil service disability retirement programs into a single, government-wide disability program, separate and distinct from retirement programs and patterned after private-sector practices.	0	0
FRS 08B	Improve investment policy of MRS by placing 25% of total assets in top-rated corporate bonds.	0	0
FRS 09B	Change MRS from a defined benefits plan (final average salary and years of service determine benefit payments) to a defined contributions plan (employee/employer contributions and accumulated investment earnings determine benefit payments).	0	0
FSP 01	Improve targeting of means-tested benefits by requiring federal, state, and local agencies to issue a form similar to a W-2 form, showing the subsidy payment for each beneficiary, with a copy going to the IRS.	7,830	24,500
HHS- MGMT 02 HOSP 08	Adopt a decentralized organizational plan for HHS based on fully-staffed, operationally autonomous divisions, with each accountable for their performance. Phase out VA's medical supply depots and reduce DOD's; meet hospital requirements through individual hospital orders billed against nationally negotiated contracts with medical suppliers.	48 86	213 309
HOSP 10	Improve DOD procedures for recovering cost of medical care from third parties by providing promotional and monetary incentives for effective cost recovery and establishing an independent unit responsible for claims recovery.	21	69
HOSP 12B	Use fiscal intermediaries to process veterans' medical benefit claims to eliminate most excessive and duplicate payments and reduce VA staffing requirements.	341	1,131
INS 09	Limit growth of federal mortgage insurance.	0	0
INS 10	Phase out FHA's mutual mortgage fund.	3	23

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
INT 01	Implement asset management program to increase sales of unneeded federal land and place proceeds in the general fund.	0	1,046
INT 02	Privatize public rangelands through sale or lease to reduce cost and improve rangeland management.	82	184
INT 04	Streamline the mineral royalty collection system, which is unduly complicated (there are 112 different edit checks). Improve internal controls, operating efficiency, user satisfaction, and security.	0	0
INT 05	Improve concessioner competition in national parks by eliminating the right of preferential renewal of concessioner contracts and instituting other reforms.	60	60
INT 08	Reduce Fish and Wildlife Service regional administrative costs through block grants.	0	10
JUSTICE 01	Require client agencies to adopt a uniform reporting system of claims referred for legal action; use private collection agencies to aid in recovery of outstanding receivables.	337	631
JUSTICE 02	Establish accounting policies for processing forfeiture cases and close the disparity between appraised value and disposition proceeds.	9	50
JUSTICE 04	Increase the federal government's use of paralegals in legal research, litigation support, and other activities not requiring the expertise of a lawyer.	1	13
JUSTICE 07	Collect profits in Federal Prison Industries in excess of capital costs, inmate training costs, and other strategic requirements as allowed by federal law.	10	41
LAND 03	Revise disposition schedules (retention periods) to ensure that records are not kept beyond their useful reference life.	8	55
LABOR 01	Establish criteria to identify questionable Federal Employment Compensation disability claims.	31	95
LABOR 05	Consolidate DOL regional offices.	8	29
LABOR 11	Centralize all DOL procurement activities in the Office of the Assistant Secretary for Administration and Management.	0	0
LISAB 02	Eliminate the Emergency Assistance program, which duplicates state programs already in place, and eliminate fund transfers from the Energy Assistance program to other assistance programs.	157	290
LISAB 03	Consolidate federal weatherization programs serving needy households.	0	0
LISAB 07	Modify Supplemental Security Income program to target benefits according to standard living expense needs, not to available cash income.	241	798
LISAB IV	Continue on an accelerated pilot program basis electronic transfer systems aimed at developing an alternative to food stamps as a means of providing nutritional assistance.	0	0

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
NAVY 11A	Require flight teams to develop their own independent maintenance and logistics capabilities, as in the commercial aviation industry.	0	120
NAVY 16	Improve career management by better planning billets to fill and extend tours of high-potential personnel to increase depth of knowledge and reduce costs associated with land/shore rotations.	0	25
OSD 01	Modify DOD acquisition regulations to increase competition among petroleum suppliers.	155	513
OSD 07	Terminate legislative constraints on DOD implementation of OMB Circular A-76, which encourages agencies to contract out when the private sector can provide certain goods and services more economically.	67	460
OSD 09	Realign or close redundant or unneeded military bases.	3,100	15,500
OSD 10	Centralize within a single agency the surface and air traffic management functions currently vested in the Military Sealift Command, the Military Airlift Command, and the Military Traffic Management Command.	38	84
OSD 11	Procure ocean container transportation separately from inland transportation services.	8	25
OSD 13	Integrate the Cargo Data Interchange System, an electronic cargo tracking and documentation system, into DOD's existing program.	5	5
QSD 16	Consolidate OSD contract administration functions under the direction of a senior OSD acquisition executive.	90	298
OSD 17	Simplify the procurement process and remove excessive regulation.	0	0
OSD 20	Whenever feasible, use standard, off-the-shelf component equipment, subsystems, and field operational support systems.	1,021	7,330
OSD 25	Integrate Military Retirement and Social Security systems: Offset military retirement pay by 1.25% of Social Security primary benefits for each year of military service after September 15, 1940.	40	274
OSD 27	Defer the commencement of retirement pay by the number of days of unused leave to ensure that retirees don't receive retirement pay while still receiving active duty compensation.	27	126
OSD 28	Discontinue reimbursement via the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for inpatient or outpatient treatment at private medical facilities except for emergency care and certain psychiatric care.	256	1,177
OSD 29	Consolidate management of DOD's four health care systems -- Army Medical Department, Navy Medical Department, Air Force Medical Department, and CHAMPUS -- into a single Defense Health Agency.	285	943
OSD 31	Discontinue Uniformed Services University of the Health Sciences because it cannot be justified as a cost-effective source of physicians for the military.	20	190

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
OSD 34	Restrict Selective Reenlistment Bonus Program payments to skill areas manned at less than 100% of desired levels.	189	626
OSD 35	Limit payments under the Aviation Center Career Incentive Pay program to officers serving on regular and frequent flight duty assignments.	79	261
OSD 36	Establish a public audit committee to conduct thorough and independent reviews of DOD internal audit practices, procedures, and controls.	0	0
OSHRC 01	Consolidate Occupational Safety and Health Review Commission (OSHRC) and Federal Mine Safety and Health Review Commission.	0	0
OSHRC 02	Reduce OSIRC paper flow and case processing time.	0	1
PER 05	Redesign and simplify the personnel classification format, reduce overgrading of employee positions, and gradually terminate overgraded positions.	993	5,164
PER 06	Expand General Schedule to more than 15 basic pay levels to achieve more realistic pay comparability with private-sector jobs.	0	0
PER 11	Modify reductions-in-force procedures to allow clerical employees in different organizational units within the same commuting area to compete to retain their jobs.	0	0
PHS 05	Consolidate federal toxicology testing facilities and staff.	41	169
PHS 08A	Close National Institutes of Health Rocky Mountain Laboratory.	3	14
PRIVAT 02	Establish agency user fees for publications.	80	265
PRIVAT 05	Facilitate privatization/contracting out of DOD commissaries.	230	4,170
PROC 02	Raise ceilings for simplified small purchase orders.	0	242
PROC 04	Expand multi-year contracting to all agencies and all types of goods and services.	500	3,415
PROC 05	Reduce program stretch-outs and facilitate termination of low-priority acquisition programs through improved priority setting.	0	0
PROC 12	Implement "wall-to-wall" inventory-taking on a periodic basis to help avoid purchase of unneeded material, prevent theft, and identify obsolete items.	0	0
PROC 14	Separate GSA policy and service functions, and direct all government agencies to use GSA for non-defense procurement, subject to certain exceptions, to achieve economies of scale.	0	0
PROC 15	Streamline GSA's Federal Supply Service by consolidating responsibility for commodity management.	10	74
PROC 16	Consolidate DOD contract administration activities within a single organization and reduce staff.	10	185
PROC 20	Increase civilian agency procurement of "common use" items.	0	312

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
PROC 22	Eliminate unnecessary specifications and simplify those that must be retained to expand purchase of available goods and services and enhance competition.	15	131
PROP 03B	Facilitate sale of surplus government properties by giving agencies incentives to identify such properties and report them to GSA.	0	0
PROP 05A	Allow real property managers to decide not to conduct A-76 studies in specified high-skill situations where they recognize contracting out to be either impractical or not cost-effective.	0	68
PROP 08E	Adopt local fire safety standards for GSA leasing whenever possible.	0	21
PROP 09	Relax congressional authorization requirements governing GSA leasing of office space for federal agencies.	20	66
SBA 04	Discontinue SBA disaster loans to businesses and individuals for insurable flood-related losses.	9	33
SBA 12	Combine SBA regions; close selected branch offices; review efficiency of SBA geographic service area assignments.	0	3
SSA 03, IV	Redesign the annual wage reporting process to eliminate backlogs in paying benefits.	67	201
	Decentralize Office of Disability Operations by transferring claims and benefits authorizations to Program Service Centers.		
SSA 07	Close smaller SSA offices and reduce staff accordingly.	87	287
SSA 10	Simplify and streamline review procedures; implement streamlined appeals process.	1,102	3,664
STATE 02	Modify criteria of Foreign Service disability and retirement.	36	114
STATE 05	Develop a computerized tracking system to increase repayment of refugee transportation loans.	0	0
STATE 06	Provide AID field mission directors latitude to cancel failing projects and reallocate funds to other projects within their mission; empower a panel of AID officers to study ways of further decentralizing authority; reduce AID's time spent reporting to Congress by 15%.	6	20
STATE 09	Eliminate cargo preference requirement for AID-sponsored shipments.	36	119
SUB 01	Consolidate benefit programs where many uncoordinated programs are attempting to serve the same objective	0	0
TRANS 01	Create an entity responsible for transportation R&D policy, goal-setting, and monitoring; encourage joint public-private efforts in transportation R&D.	86	284
TRANS 04	Reduce number of DOT regions; reduce the Maritime Administration's budget and fiscal service staff.	8	29

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
TRANS 05	Consolidate ADP functions of the Federal Railroad Administration, National Highway Traffic Safety Administration, Urban Mass Transit Administration, Maritime Administration, and Research and Special Programs Administration within the Office of the Secretary.	4	15
TRANS 08	Consolidate FHWA with UMTA to form a single Surface Transportation Administration.	19	71
TRANS 09	Develop a cost-tracking procedure for state and local requirements for UMTA grants.	0	0
TRANS 10	Offer broad-based railroad system safety assessments for a fee: require mandatory inspections and fines for violations for railroads that elect not to have the assessment.	1	16
TRANS 11	Merge the major safety functions of NHTSA, FHWA, UMTA, and the Research and Special Programs Administration into a consolidated Land Modal Administration.	3	15
TRANS 14	Cancel NHTSA's uniform tire-quality grading program, which raises consumer and administrative costs without enhancing tire quality or safety.	1	3
TRANS 16	Close, contract out, or defederalize Level I (low-use) air control towers.	46	151
TRANS 22	Charge tuition for a significant percentage of U.S. Merchant Marine Academy students.	6	19
TREAS 01	Collect more delinquent taxes through improved staffing, added clerical support, and improved collection techniques.	320	1,058
TREAS 06	Establish a corps of volunteer professionals made up of retired IRS personnel, retired CPAs, and other retired professionals to provide tax preparation assistance.	0	0
TREAS 08	Develop comprehensive border management policy; consolidate inspection functions currently performed at ports of entry into one agency.	0	14
TREAS 09	Transfer criminal enforcement responsibilities from the BATF to the Secret Service (for firearms and explosives) and to Customs (for alcohol and tobacco).	16	57
TREAS 10	Upgrade ADP systems; develop and publish guidelines for office automation; implement computerized duty collection system.	7	120
TREAS 11	Reduce the number of Customs regions, districts, ports, and stations.	14	57
TREAS 20	Enhance Bureau of the Mint organization control by consolidating its Washington, DC, headquarters operation with the Philadelphia mint.	4	43
USAF 01	Improve management reporting and control by adopting accrual accounting system in keeping with generally accepted accounting principles and P.L. 84-863.	350	1,159
USAF 03	Consolidate Air Force program and budget reviews to reduce paperwork and staff time.	2	8
USAF 06	Use full-time equivalent employment ceilings throughout the fiscal year rather than year-end workforce "strength" ceilings, which cause labor imbalances and invite creative accounting.	29	96

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
USAF 07	Reduce severance pay for nonpromotion discharges of officers to match private-sector practices.	5	18
USAF 12	Require non-DOD agencies with significant international travel to contract with the Military Airlift Command to procure airline tickets at rates below commercial fares.	6	20
USDA 01	Reduce FmHA loan obligations by matching each new loan refinanced from the private sector with the "graduation" of an existing FmHA loan.	141	768
USDA 05	Eliminate FmHA lending to non-farm businesses and SBA lending to farms.	296	913
USDA 09	Update food stamp program annually to reflect changes in the average participant household's size and composition.	1,039	3,439
USDA 10	Modify economies-of-scale adjustment factors to reflect actual differences in purchasing cost based on family size.	252	835
USDA 11	Eliminate food stamp \$10 minimum monthly benefit for households whose calculated benefit is zero; reduce to \$6 the monthly benefit for households whose calculated benefit is between \$1 and \$9.	70	350
USDA 14	Include School Breakfast, Child Care Food, and Summer Food Services benefits as unearned income when determining eligibility for the Food Stamp program.	162	536
USDA 18	Eliminate "triplication" of dairy plant inspections by the USDA, the FDA, and the states.	2	5
USDA 19	Replace prior approval of meat and poultry labels with a system similar to FDA's method of ensuring proper marking and labeling under the Food, Drug, and Cosmetic Act.	1	4
USDA 22	Eliminate CCC food donations to other agencies; require agencies to use appropriated funds to purchase CCC commodities.	404	1,205
USDA 31	Reduce the large, costly pool of U.S. nationals used as Foreign Agricultural Service secretaries in foreign countries.	0	1
USDA 32	Reorganize the Agricultural Attache Service to improve monitoring and evaluation of the work and productivity of the attaches.	0	0
USDA 51	Create National Board of Agriculture to develop national goals and missions for federally-funded agricultural research.	76	252
USDA 53	Transfer Agricultural Research Service human nutrition research programs to HHS.	15	95
USER 06	Charge a fee for grazing on public rangelands.	23	76
USER 09	Charge a fee for National Cooperative Survey books.	8	27
USER 17	Recover the cost of responding to FOIA requests, which are increasingly used by businesses to obtain information that is of economic benefit to them.	70	232
USER 20	Amend waterway legislation to recover full cost of operation and maintenance as well as construction of the nation's inland waterways.	590	3,140

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
USPS 01	Allow U.S. Postal Service to sell obligations to the public debt market as well as to the Federal Financing Bank so that USPS can obtain the best financing terms available.	1	7
USPS 17	Replace rural post offices that provide minimal or no delivery service with lower-cost delivery alternatives.	40	272
USPS 19	Organize the responsibility for all USPS procurement activity under one purchasing authority.	0	0
USPS 20	Increase early participation of USPS procurement management in the design and specification development stage of capital equipment purchases.	20	66
USPS 26	Transfer review of the Postal Rate Commission's budget from USPS to OMB so the regulator's budget is reviewed by an independent body, not by the agency it regulates.	0	0
USPS 30	Require employees with grievances to use either the EEOC complaint system or the contract grievance and arbitration system, but not both.	18	61
USPS 32	Develop a human resources planning capability to allow significant workforce reductions through attrition without impairing service.	0	0
USPS 37	Adopt GAO recommendations to reduce absenteeism and investigate use of private-sector techniques to control sick-leave costs.	0	0
USPS 38	Treat USPS like a private-sector company by giving EEOC initial review as well as appellate authority in discrimination cases.	77	254
VA 01	Improve claims processing by revising the VA work-measurement system and implementing a comprehensive system of performance appraisal.	82	272
VA 03	Establish new accounting systems for VA debt, give field stations necessary tools, and assign all debt more than one year old to outside collection contractors.	12	54
VA 04	Eliminate VA acquisition of properties at foreclosure sales except when it is in the best interest of taxpayers.	61	193
TOTAL SAVINGS FROM GRACE COMMISSION:		28,276	110,649

VI. CITIZENS AGAINST GOVERNMENT WASTE

Includes recommendations from The Cato Institute, Mr. Martin Gross, The Heritage Foundation, and the Department of Health and Human Services Inspector General

AGR 01	End farm subsidies to wealthy farmers with annual net taxable incomes above \$120,000 and corporations with annual taxable incomes above \$5 million.	255	1,040
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ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
AGR 02	Consolidate and reduce funding for more than 60 environmental programs into a single block grant; allow each state to use the funds in a manner best suited to its environmental needs.	200	6,000
COM 01	Cut by 50% funding for the Department of Commerce. The U.S. Trade Representative now handles most trade negotiation functions; with the exception of census-taking, few of Commerce's duties serve any overriding national interest.	200	1,500
COM 04	Eliminate state marine academies.	10	50
DEF 02	Recover 100% of the cost of Coast Guard services provided to commercial and pleasure boats.	710	3,800
DOE 01	Transfer DOE nuclear weapons testing and development to the Pentagon; consolidate remaining DOE functions with Department of Interior to create a Department of Natural Resources.	2,000	10,000
ENT 01	Combine and reduce funding to the states for the administrative costs of AFDC, Medicaid, and food stamps into a single indexed grant.	485	5,985
ENT 02	Limit the housing allowance for AFDC families in subsidized public housing so that their benefits do not exceed those of AFDC families who do not live in subsidized housing.	500	3,000
ENT 03	Include the value of food stamps when calculating income eligibility for Section 8 and other public housing benefits.	1,080	6,150
ENT 04	Increase Medicare oversight, or "safeguard" funding to the 82 companies that process Medicare claims; GAO has found that every \$1 expended on safeguard funding produces \$11 in savings or refunds.	1,100	5,720
FAID 01	Rescind unauthorized FY 1994 appropriations for the International Security and Development Cooperation of 1985.	8,160	8,160
FAID 01	Rescind unauthorized FY 1994 appropriations for foreign relations activities.	5,292	5,292
GM 01	Cut by 50% federal spending on furniture and decorations.	1,000	5,000
GM 02	Prohibit the use of outside consultants, who have become an unaccountable "shadow" government.	4,900	24,500
GM 03	Sell federal land lacking environmental significance in urbanized areas through competitive auctions.	1,700	7,354
GM 04	Sell increasing portions of the government's direct loan portfolio to the private sector.	2,000	30,000
HHS 01	Modify the federal medical assistance formula for AFDC, Foster Care, and Adoption Assistance to reflect per-capita income.	1,100	5,500
HHS 02	Gradually increase the Medicare entitlement age to 67, as in Social Security, to help protect Medicare solvency.	4,700	23,500

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
HHS 03	Extend beyond 18 months Medicare Secondary Payer (MSP) provisions for end-stage-renal-disease beneficiaries; apply MSP to retirees of currently exempt state and local government agencies.	2,070	10,765
HHS 04	Control lab-test spending growth by including outpatient lab costs in physician office visit charges.	160	6,000
LAB 01	Abolish the Job Training Partnership Act, which has a poor record of training and placing clients in good-paying jobs and a high incidence of waste, fraud, and abuse, according to Labor Department IGs.	1,000	5,000
LAB 02	Eliminate funding for Youth Fair Chance, a new two-year demonstration program that provides \$10 for haircuts for job interviews for "youths" up to 30 years old.	25	125
PBGC 01	Increase company-sponsored contributions to the PBGC; freeze the guarantee for unfunded plans; amend bankruptcy laws to improve PBGC.	2,500	13,100
PC 01	Allow advertising on public broadcasting, with 50% of the revenue devoted to enhancing programming and 50% to reduction of federal broadcasting funding.	50	250
PORK 01	Eliminate pork-barrel spending.	6,200	31,000
PORK 02	Rescind funding for pork items included in the 1994 Earthquake Relief Bill including: \$20 million for hiring 300 additional full time employees for the FBI fingerprint laboratory in West Virginia; \$18 million for SBA tree-planting grants; \$1 million for the Savannah, the first nuclear-powered ship; \$10 million for the conversion of the James A. Farley Post Office to a train station and commercial center in New York; and \$1 million for the rehabilitation of sugar cane mills in Hawaii.	50	50
PROC 01	Reduce Pentagon waste: eliminate unnecessary procurement regulations; require defense contractors to share cost overruns with the government; link DOD salaries and promotions to a manager's ability to complete programs on schedule, within budget.	7,000	49,000
REG 01	Cut regulatory agency budgets by 25% to help eliminate unnecessary and capricious regulation. Enact a regulatory budget to enable the federal government to manage and control "regulatory creep."	200	1,500
SSI 01	Reform SSI and SSDI for drug addicts and alcoholics by eliminating direct payments to substance abusers, prohibiting lump sum retroactive payments until treatment is completed, removing persons who profit from illegal activities such as drug dealing from the rolls and imposing stiff penalties for those defrauding the programs.	1,288	6,440
TRAN 01	Limit federal highway spending to the amount brought in by motor vehicle fuel taxes.	320	8,550

ISSUE #	RECOMMENDATION	One-Year Savings (Millions of Dollars)	Five-Year Savings (Millions of Dollars)
TREAS 01	Prevent future taxpayer bailouts. Limit deposit insurance to \$100,000 per depositor per bank; limit coverage to the original principal investment; establish risk-based premiums; measures losses as they accrue; allow interstate banking and branching.	1,800	15,500
TREAS 02	Replace dollar bills with dollar coins; metal is far more durable than paper and would therefore not need replacement as often.	422	2,110
	TOTAL SAVINGS FROM CITIZENS AGAINST GOVERNMENT WASTE:	58,477	301,941
	TOTAL SAVINGS FROM ALL SOURCES:	186,842	1,301,858

GLOSSARY

ADP	Automated Data Processing/Office Automation	DOM	Domestic
AFDC	Aid to Families with Dependent Children	DOT	Department of Transportation
AGR	Agriculture	EDA	Economic Development Administration
AID	Agency for International Development	EEOC	Equal Employment Opportunity Commission
ARC	Appalachian Regional Commission	FNT	Entitlements
ARMY	Department of the Army	EPA	Environmental Protection Agency
ARS	Agricultural Research Service	EX	Opportunities Beyond the Grace Commission
ASSET	Financial Asset Management	FAA	Federal Aviation Administration
ATP	Advanced Technology Program	FAID	Foreign Aid
BANK	Boards/Commissions-Banking	FBI	Federal Bureau of Investigation
BATF	Bureau of Alcohol, Tobacco, and Firearms	FCC	Federal Communications Commission
BIA	Bureau of Indian Affairs	FCIP	Federal Crop Insurance Program
BLM	Bureau of Land Management	FDA	Food and Drug Administration
BOM	Bureau of Mines	FDIC	Federal Deposit Insurance Corporation
CBO	Congressional Budget Office	FEE	User Fee
CCC	Commodity Credit Corporation	FEMA	Federal Emergency Management Agency
CCE	The Cost of Congressional Encroachment	FF	Federal Feeding
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services	FFRDC	Federally Funded Research and Development Centers
CPI	Consumer Price Index	FHA	Federal Housing Administration
COLA	Cost-of-Living Adjustment	FHWA	Federal Highway Administration
COM	Department of Commerce	FMFG	Financial Management in the Federal Government
CONST	Federal Construction Management	FmHA	Farmers Home Administration
CPSC	Consumer Product Safety Commission	FMS	Federal Management Systems
DEF	Defense	FOIA	Freedom of Information Act
DEV	Development	FRS	Federal Retirement Systems
DOC	Department of Commerce	FTA	Federal Transit Administration
DOD	Department of Defense	GAO	General Accounting Office
DOE	Department of Energy	GM	Government Management
DOEd	Department of Education	GNMA	Government National Mortgage Association
DOL	Department of Labor	GOV	Government Operations
		GSA	General Services Administration
		H	Health
		HCFA	Health Care Financing Administration
		HE	Human Empowerment

TRD	Trade
TREAS	Department of the Treasury
TVA	Tennessee Valley Authority
UMTA	Urban Mass Transit Administration
USAF	Department of the Air Force
USDA	Department of Agriculture
USER	User Fees
USIA	U.S. Information Agency
USPS	U.S. Postal Service
USTTA	U.S. Travel and Tourism Administration
VA	Department of Veterans Affairs
VET	Veterans Affairs
WEL	Welfare

Mr. SHAYS. The committee is delighted to have both of you here. You represent not just an economic view, you have been at the table where decisions have been made, you know what you recommended to Congress, you know where Congress chose not to take your recommendations, you know so much about this budget, so we are eager to get in and ask some questions.

I would like to start, and I am going to start with 5 minutes. You will get a little bit more out of courtesy, but then we will go back and forth.

When I came to Congress in 1987, I was struck by the feeling that Republicans didn't want to cut defense and Democrats didn't want to cut entitlements, and there was almost this basic quiet agreement that both would get what they wanted. We ended up with budgets that had deficits. And now we are paying the penalty.

You can't really see this chart in front, but we have a general sense that the blue represent all the entitlements and the interest on the national debt. These are the growth of what is happening there. And down here, we have basically negative growth for defense. International is negative; domestic is a 0.1 percent growth in the next 5 years, based on the President's budget. Two-thirds of the budget is on automatic pilot, entitlements and interest.

My question is, how do we get at the entitlements? Is there a way that we can take some of the entitlements off automatic pilot and put them on as a general appropriations? I believe if we could do that, Members of Congress would say they don't measure up to other expenditures, and we would start to see some control to the entitlements. Anyway, to get some entitlements over as an annual expenditure?

Mr. JAMES MILLER. First, let me say that you are absolutely right on defense. Since 1989, the last budget that Joe and I influenced, defense spending adjusted for inflation has fallen by exactly one-third. It is one-third lower than it was at that time. That is outlays, not budget authority.

On the question of entitlements, I think a lot needs to be done with entitlements. I am not enamored with the argument that we should fiddle with the COLA, fiddle with the inflation adjustment so that we can reduce spending. I think the inflation adjustment ought to be based on inflation, accurately measured. Government should contract with people in real terms, not in nominal terms. But there is an inherent problem in the way we put together our indices. We used what are called a spares index.

Mr. SHAYS. I don't want to lose my 5 minutes here. I would like to just get some real concrete proposals on how we can make entitlements annual expenditures, if at all possible.

Mr. JAMES MILLER. Well, as I said in this testimony with regard to Social Security, we are going to have a tragedy in the next 25 years because it is going to collapse. We have got to address this problem. So, you should start with the principle that people ought to get back everything they paid in, plus interest, plus what their employer paid in, plus interest. But the redistribution part, the Ponzi part, ought to be means-tested. That is No. 1.

Mr. SHAYS. Once they have gotten back everything they put in, plus the employer, plus the interest, then means-test the balance?

Mr. JAMES MILLER. That is right. You should means-test the redistribution part.

Mr. SHAYS. We are not going to fool around with Social Security for the next few years, so—

Mr. JAMES MILLER. As for Medicare and Medicaid, you replace Medicare and Medicaid programs with a voucher program that can be used in the private sector, and utilizes the efficiency of the private sector. The reason Medicare is such a good buy, is that 35 percent of the premium is subsidized by the taxpayer. You could provide a voucher and provide 35 percent. But to use the private sector would be more efficient.

We ought to revise our agricultural program. It is a travesty. It enriches rich farmers and impoverishes poor farmers. We need to change a lot of the other entitlements but—

Mr. SHAYS. Can I respond to those? Particularly Medicare and Medicaid. Would you privatize them?

Mr. WRIGHT. Mr. Chairman, first of all, I would not have an ongoing authorization that never has to be revisited. I think you are already discussing that for all the entitlement programs.

Mr. SHAYS. In other words, let me just be clear on this, you would take an entitlement, and even though it was an entitlement, in other words you fit a category, you get the money, you would have us have to redo it every few years to make sure that we really wanted to continue the entitlement?

Mr. WRIGHT. The authorization, absolutely. It will cause you to take a look at it, hopefully from a base value, not from a where-we-are value.

Now, the reason you are now on automatic pilot is because the Congress has, for political reasons over the years, just handed the money out there and said for political reasons we are not going to revisit this, except around the edges. And so therefore that is what I would do, No. 1.

On Medicare, what Jim said in terms of going to a voucher system, I totally support that. I would put a very strong means test on it, which I do not believe we have right now. I would also put in—

Mr. SHAYS. On Medicare?

Mr. WRIGHT. Yes, sir. I would also put in a catastrophic health provision, because I think that has to be done. We tried to do that in the last couple of years in the Reagan administration with the Congress, but it just got loaded up with a whole series of revenue packages, if you remember.

Mr. SHAYS. OK. Thank you very much.

Mr. JAMES MILLER. By the way, this budget expands Medicare spending.

Chairman KASICH. Mr. Sabo.

Mr. SABO. First, Mr. Miller, I think your number on the movement to date on pension plans, that is a cost, not a savings. You better look at those numbers again, just technically for your speeches. I also—

Mr. JAMES MILLER. I will definitely do that.

Mr. SABO. Yes, because it is a cost to the discretionary side. I am struck by the inconsistencies of using baseline with adjustments for inflation. Conservatives always want to say they are never relevant

to domestic programs, but are relevant to defense programs. And some of my liberal friends tend to do it the opposite way. The level of consistency is not great.

But I am curious, both of you had significant impact on the workings of government. I just happen to have in front of me a table of what happened. In 1981, the deficit was \$79 billion, 2.7 percent of GDP. And although actual dollars are relevant, I think the relationship to the total economy is also relevant. By 1983, 2 years later, the deficit was \$208 billion and 6.3 percent of GDP. Then it was 5, 5.3, 5.2.

Mr. Miller, to your credit in 1987, 1988, 1989 it came down—by 1989 it was down to 2.9 percent. By then, Democrats controlled both Houses of Congress, just as we didn't control both Houses for 6 years of the Reagan administration. Then it exploded again during the Bush administration, 4 percent, 4.7, 4.9, 4.1. By 1995, it is back down to 2-and-a-half percent, lower as a percentage of GDP than it was in the last year of the Carter administration, before the explosion that occurred for whatever reasons during the Reagan administration.

I just have to say, I think it is a fairly significant record in any kind of historical terms. When you may come harshly talking about the President today, the fact is his program has reduced the deficit more than anything and returned it to levels below where it was during the explosion of the 1980's and early 1990's.

But I am just curious, everything is easily said about programs when they are sort of abstract. And we make choices day-to-day here. And both of you have a great deal to say about the relationship between the Federal Government and State government. That is an issue that has intrigued me for 25 years or more. And sometimes I would agree with you, sometimes I wouldn't. I am curious what you think of the bill we have currently on the floor just today. Because that becomes real.

We passed a crime bill last year. I, frankly, voted against it for a variety of reasons. For one, I thought we spent too much money. But I also thought as I looked at the bill, the least defensible part of it was for the Federal Government to start giving money to States to build prisons. That is something that is not a steady expenditure, but comes sporadically, and the States have—clearly, my State has bonding capacity to do that. But now, we are having a revision of that bill, which changes that funding around and puts more Federal money into giving grants to States for capital construction of prisons, for which they have bonding capacity. And at the same time we have the rhetoric of a session where we say States have great wisdom, but to get this money they have to follow the Federal guidelines on how you handle the sentencing for the States' criminal justice system. We apparently think they can totally run welfare, which has been a traditional Federal program, but in the criminal justice system, which traditionally has been State and local in this country, we are concluding they don't know anything.

Is this a wise decision that we are going to make maybe in an hour or two, to pass this type of revision?

Mr. JAMES MILLER. Well, let me say that, No. 1, this whole business of strings bothers me; the whole business of having the Fed-

eral Government provide the money to the States to make those decisions. I would devolve some of these responsibilities to the States and let the States——

Mr. SABO. Here we are not talking about theory. We are talking about a bill we are going to vote on in 2 or 3 hours, which is going to expand our contribution for construction programs in the States, for which they have bonding capacity. And we are going to make the funding contingent on them adopting sentencing provisions which we think are right, regardless of how they have written them. The law and their words have to fit our law. Is this a wise thing we are doing?

Mr. JAMES MILLER. I apologize for talking in theory, Mr. Sabo, because I have not read the bill. So I can't comment on the specifics. That is the reason I was sort of giving general principles.

Mr. SABO. Mr. Wright?

Mr. WRIGHT. Mr. Sabo, I agree, I have not read the bill. In general——

Mr. SABO. I think my description is fair.

Mr. WRIGHT. But in general, am I in favor of the Federal Government establishing standards by which every single State should meet? In most cases, no. In terms of the criminal justice system, I would say that is probably appropriate, because that is a core function of the central government.

Mr. SABO. The criminal justice system is a core?

Mr. WRIGHT. In terms of sentencing guidelines and in terms of——

Mr. SABO. For State law?

Mr. WRIGHT. Remember, you have got a budget person talking.

Mr. SABO. You know, going to the core of our criminal justice system in this country is State preeminence in the criminal justice system. In most States, there is heavy reliance when you get to the police function, not even on State government, but on local government. I come from a State where highway patrol were called highway patrol because we didn't want to call them State police.

Mr. WRIGHT. Mr. Sabo, that is the implementation. That is not basically the general guidance, in terms of the general policy on sentencing guidelines.

Mr. SABO. No, what we are talking about is not sentencing guidelines for the Federal criminal code. We are talking about it beyond guidelines, for restrictions as it applies to the criminal justice system as developed by the 50 States in this country.

Chairman KASICH. Could I rescue the witness, Mr. Sabo, by saying he is not up for the Supreme Court of the United States; he is up here talking about budgets.

Mr. SABO. No, but he is—they are here talking as experts on how we should do this and that, abolish this program, you know, education, you know, abolish it, send it here, there. This is real; it is before us today, not theoretical.

Mr. WRIGHT. Mr. Sabo, there is going to be a lot of things that are going to be before you today. And you have to understand also, you have got two budget people that are testifying before you. And I appreciate that you are going to face this in about 2 hours, but I really don't believe that is the subject of this hearing, unless I am incorrect.

Mr. SABO. I think the budget is, and how we spend money and how we reduce the deficit.

Mr. WRIGHT. Now I would, Mr. Chairman, like to just comment, because Mr. Sabo did mention a few items that he threw out. And my cohort here, Mr. Miller, let him get by with it. He talked about how the deficit went up in the first couple of years of Ronald Reagan. I think not to mention the fact that we were in one of the largest recessions we have had in a long time, with the prime rate that was at 21 percent, inflation at 11 percent, increasing every single year the entitlements which is the largest part of the budget, and to say that particularly in the first year of Ronald Reagan that the deficits went up dramatically, which they did, had anything to do with any of his policies or proposals, Mr. Sabo knows better than that.

Mr. SABO. Now, Mr. Chairman, let me stop. What exploded under Ronald Reagan was health care costs and defense spending. Social Security went up in actual dollars, but as a percentage of GDP it was fairly level. The explosion was health care costs and defense spending. And clearly, we had a slowdown on health care costs earlier. But this Congress decided during the years of the Carter administration not to do a hospital cost containment bill. When the pressure was off, health care costs escalated. Health care planning that had been in effect in many communities in this country was repealed. All of that was followed by an explosion in health care costs that the Reagan administration didn't deal with. It was unrelated to the inflation issue and retirement programs.

Mr. WRIGHT. Mr. Sabo, let me give you some numbers that will reflect one of my biggest concerns with the President's budget right now.

When I mentioned the fact that President Clinton has proposed \$200 billion per year going out, it is going to be more than that. I truly believe that if you were to approve that budget you will not be seeing \$200 billion in the outyears, you will be seeing more.

But during the period of time that the deficits went up, and this is what irritates me about hearing people say these are Ronald Reagan's deficits, during that period of time in every single year, because I was there for most of them, we either proposed that the budget go to balance or that it be substantially reduced. And I have got the numbers. I will be happy to submit them for the record here.

In this particular case, the President has totally abdicated his responsibility of even proposing reduced deficits, and the Congress—I am not saying that they should have taken all of President Reagan's proposals, I know that that is not their role, nor should they have just put them into law. But you could have replaced the spending cuts with some of your own, and you didn't. And so therefore the deficits went up.

Mr. SABO. Let's be also very clear that in appropriated dollars, the Congress appropriated less than the administration asked for. We changed the nature of them but we appropriated less.

Mr. WRIGHT. And that is fine.

Mr. JAMES MILLER. Yes, you cut defense and increased domestic spending.

Mr. SABO. We slowed down the increase.

Mr. JAMES MILLER. On page 138, 139 of my book that I sent you, Mr. Sabo—

Mr. SABO. Defense spending went up, but not as quickly as the Reagan administration was asking.

Mr. JAMES MILLER. Defense spending grew over the decade of the 1980's, but not nearly so great as the increase in domestic spending.

What happened, of course, in our budget—

Mr. SABO. Let's make the distinction, let's make the distinction between discretionary spending versus entitlements. Health care exploded during the 1980's. And, frankly, there is shared responsibility between the Congress and the President for that. There was never any program by the Reagan administration to deal head on with the problem of escalating exploding health care costs.

Mr. JAMES MILLER. No, sir, that is not true.

Mr. SABO. It is true.

Mr. JAMES MILLER. If you will read our budgets of 1986, 1987, 1988, and 1989, you will see that there are substantial proposals to put constraints within entitlement spending that Congress ignored.

Mr. WRIGHT. Mr. Sabo, what we were doing is we were making those proposals. Every single year, you turned them down.

Mr. JAMES MILLER. You ignored them.

Mr. WRIGHT. You called our budgets dead on arrival, every single year.

Mr. SABO. How many of them passed the Republican Senate?

Mr. WRIGHT. I am not talking about Democrats; I am not talking about Republicans, I am talking about the Congress with all of its politics and all of the lobbyists that you have got up here. When we—

Mr. JAMES MILLER. The allocation—

Mr. WRIGHT. When we would stay down there and would work for 9 months during an entire year to send you a budget, and for you to laugh at it and call it dead on arrival every single year, and then blame the deficits on Ronald Reagan I think is outrageous.

Mr. JAMES MILLER. That is the key. You might direct some ire to some Republicans on either side of the House, but not at the President's budget and the people that prepared his budget. Because we did propose substantial reductions.

Mr. SABO. Just so I am clear, Mr. Miller, your budgets that you prepared were better, more accurate, than what preceded you and what followed you.

Mr. JAMES MILLER. I will put that on my vitae. Thank you.

Chairman KASICH. Well, I want to, first of all, explain that I want Mr. Sabo to always have an opportunity to have as much time as he needs with the witnesses, because—he can go 20 minutes as far as I am concerned, because you have to understand that for the last 2 years, he gave me as much latitude as I ever wanted in here. And God bless him for his work and he is an intellectually honest liberal. I mean, that is the only way I can describe him. I mean, he really is intellectually honest.

Anyway, I mean I think it is fair to say, I think first of all on the crime bill, it is a—it is a legitimate issue, a legitimate issue to ask whether the Federal Government should help States build

prisons. I happen to believe that crime is a national issue for the central government. Frankly, it was started, I would argue, Mr. Sabo, really most aggressively under Richard Nixon, who you remember in 1968, I was just a kid, you were pretty old then but I was still a kid, you know, that controlling our streets was important. But whether we should do the prison thing is—I think it is a fair debate. There is no question about it.

But in terms of the crime bill, my sense is that it is a job of the central government, because crime is something that everybody is worried about to be in the middle of. As to what all the remedies are, I think we can think of—

Mr. SABO. Mr. Chairman, let me just quickly say that I think clearly crime and what creates crime is a central issue of the central government. How we respond and how we structure programs is clearly a relevant issue. But we have witnesses who quickly dismiss a whole host of things the Federal Government does in sharing responsibility with States and saying they are quickly dismissing them. I think if we are going to do that, then we better look very carefully at new ones that we are creating.

Chairman KASICH. I think what is going on today is simply this, that for really since the 1960's, when we have aggressively turned power from communities and cities and States to Washington, to more aggressively try to solve our problems, we have kind of done that for 30 years. And what we are in the process now of doing is to say that at least in the Majority here, and of course elections tend to drive you in terms of the numbers and what the policies are, is that we are now beginning to say that all these things the Federal Government tried to do, these problems weren't getting fixed and we want to go back, we want to go back not to the standpoint of not doing them, but addressing these problems at States and local levels. I mean, that is really the philosophy of all of this.

But I think it is fair to say that in the early 1980's had they sent their budget up, you talk to Pete Domenici in the Reagan years, Pete will tell you all the scars he has from those fights in the 1980's. We are going to have those same fights, some of those same fights in the 1990's, aren't we, Mr. Miller?

Mr. JAMES MILLER. I think you are.

Chairman KASICH. I mean over tough cuts.

Mr. JAMES MILLER. Won't be easy.

Chairman KASICH. But frankly, even though we are looking now at deficits that may be some lower percentage of GDP than they were, what we all know is, No. 1, these deficits are calculated into the future based on economic growth. You know, you put us—you put us in a recession for a year or two, and we are going to look at deficits that are going to be what, what would you guess, Mr. Miller?

Mr. JAMES MILLER. You could easily increase the deficit \$100 billion a year.

Chairman KASICH. So in the outyears, you could be running a \$400 billion deficit.

Secondly, these entitlements, don't they have a way of generating a momentum, of spiraling to the point where you can't control them the longer you let them go?

Mr. JAMES MILLER. Well, I don't think that we are in an apocalyptic phase or close to it. I have a great deal—

Chairman KASICH. I am not suggesting that.

Mr. JAMES MILLER [continuing]. Of faith in Congress. I think that you will make some suggestions to rein in the entitlement. I mean, these extrapolations you carry—

Chairman KASICH. But not proposed in the President's budgets.

Mr. JAMES MILLER. No, they are not in the President's budget.

Chairman KASICH. I mean, when you are running 10½ percent increases on average in Medicare and 10½ percent increases in Medicaid, I am not saying we are in apocalypse now, but the problem is that these kind of average growth rates, especially in an area like Medicare, do they not have a negative impact on the ability of the private sector to control health costs?

Mr. WRIGHT. Yes, Mr. Chairman, of course they do. Of course they do. But you have an opportunity that is highly different than anything that we have seen that previously existed. You can drive the change from the Congress. And not only can you drive it, but you have also stated that that is your intent to do so. And we never had that opportunity. Because basically what we were trying to do with the original block grants in the early 1980's, we should be faulted at this time because we didn't go far enough fast enough. Because a mandate has got a half-life of Uranium 235 in this town, it is gone in a flash. And right now, that is why I have to say that many of the actions that you have started and that the Speaker has started, I totally applaud, because it is quick, it is fast, and you understand that you have to do it quickly.

Let me explain. I disagree with Jim Miller just a little bit as to what the deficits would be in the case of a recession. When we first came in in 1981 and 1982 and I first joined OMB, we were losing \$1 billion a week to the deficit. And at that time, our proposals hadn't really even taken place yet. And I am not saying that we are going to go into that kind of a recession again, but the dynamics of when you have your revenue drop, and you have entitlements that are on automatic pilot, and you have them automatically inflated for inflation, and you just totally lose control of the deficits—if you are looking at it from OMB, which is kind of the central control point for this. So from that standpoint, I look at the President's budget and one of the things I am upset about is he doesn't try. He doesn't—he doesn't even propose getting the budget deficits down.

And one of the things I was mentioning to Mr. Sabo, whether the Congress took our recommendations during the Reagan years or not, we did propose either going to balance or substantially reducing the deficit. I would have preferred to see this President do that. And then to come up before a Congress like this that will accept cuts in spending, let me tell you, that is a luxury that Jim Miller and I never had. And, while you were out of the room, the only thing I suggested is that now is the time for this committee and your counterpart over on the Senate side to be very bold.

Chairman KASICH. I want to apologize for moving in and out. I am trying to help on an internal problem. I wanted just to conclude, we will go to Mr. Franks and then Mr. Stenholm. You know, our big—we have to get this thing licked inside our own party. I

mean, we are going to fight these fights, like we fought in the 1980's.

I happen to believe we are in a much better position in the 1990's than we were in the 1980's for two reasons. One is we have a lot of members here who are really committed to doing it; and, secondly, the public knows that if we keep doing what we were doing, we are going to be in deep trouble and we are going to threaten the next generation. And that is why we are going to have to do it. And if we take some heat from the lobbyists, we take the heat. And you know what, if we fail, it won't be a failure of the Republican party. It will be a failure of the American political system. And it will never be the same if we fail.

Would you agree with that, Mr. Miller?

Mr. JAMES MILLER. Oh, you must. I think you have got to step up to the plate and take a swing at this. The situation is getting out of hand.

Chairman KASICH. Mr. Franks.

Mr. FRANKS. Thank you, Mr. Chairman.

Mr. Miller, you displayed some charts earlier, and I want to follow up on them, if I can. Assuming that everyone in this committee on a bipartisan basis wants to move toward a balanced budget, the question, indeed, becomes how to best do that.

You displayed on one of your charts the result of freezing spending, both in one chart with Social Security included in that freeze and excluding it in another, and your projected figures indicated that the budget would be brought into balance merely by freezing spending.

Folks in this city say, well, that is inherently unfair and it is a copout because what you ought to be doing is measuring the performance of a variety of programs, some of which ought to be entitled to minimal increases, others ought to be abolished outright.

So I am curious, were your charts to simply make the bigger point, or given the enormous conflict within our society about what ought be reduced, eliminated, or expanded, are you suggesting that that is an intellectually honest way to proceed toward a balanced budget?

Mr. JAMES MILLER. No, I think of it as an intellectually honest way to proceed. You have first established the principle that you want to balance the budget. Then the question becomes how do you balance the budget? One way would be simply to freeze total spending.

My charts didn't say anything about the composition of that spending. If you accept the argument that spending should be frozen, then of course you would change priorities within the spending caps. As I said in my testimony, there are lots of things that you could cut out and there are things that you could increase as well.

Mr. FRANKS [presiding]. I was interested by Mr. Sabo's use of the crime bill on the floor as an example. And I am not going to hold you to the example. But it seems to me, having spent 2 years here, that there is a consumption with the current legislative program. Today it is a crime bill; next week it is going to be another item from the contract. And what the authorizers do and the appropriators seem to do, and what members on this committee tend to do,

is to come in every morning and wonder what is on the calendar, how do you feel about that bill.

We all want to make certain that we appropriately choose targets for streamlining, consolidation, elimination, or potentially expansion. But this institution doesn't seem to be adequately geared to the kind of I guess what some might call an oversight function, to know the difference between those that we were getting maximum value for our investment and tax dollars, and to readily identify those programs that have in the vernacular outlived their useful life.

I guess the National Performance Review has been sort of aimed at that, but that has been sort of a one-shot deal and somewhat lacking in aggressive followup, it seems to me.

Can we make intelligent choices, recognizing the valuable programs from those that aren't? Do we have enough information institutionally? Does the executive even have enough information? Are we geared up to do this?

Mr. JAMES MILLER. I think you can always get additional information. But the important role of this committee, it seems to me, is that you have the broader perspective that other committees. Other committees are focused on their own responsibilities. You are much like the OMB Director. When Joe was OMB Director, all the agencies had their own little focus, but he had the broader perspective of how it all fit together. That is what you have in this committee. I would strengthen the Budget Committee vis-a-vis the other committees.

Mr. WRIGHT. By the way, I agree with that, Mr. Franks.

The only other thing I would say is that I brought out a whole series of recommendations that had been made that account to over \$1 trillion in savings over 5 years. I am not saying that all of them are correct. I am sure that they are not. But there is plenty of recommendations, including the Senators Kerrey and Danforth recommendations. There are plenty of recommendations for the Budget Committee to look at.

Mr. JAMES MILLER. And Penny-Kasich last year, too.

Mr. WRIGHT. You have got hosts of recommendations. The thing I think that both Jim and I are saying, though, and that is it is tough for you to do because of the time frame of the annual appropriation and the annual budget process. But I would strongly suggest that you look at the proper role of the government. Because the Federal Government has gotten totally out of whack. It is not whether or not we can afford it any more, which we cannot. But it is whether or not they are doing the country any good by taking over more than their proper and fair share of leading this country. I think it is ineffective. I think it is inefficient. I think it wastes too much money. I think it is harmful. And the only committee that can basically drive this process is the Budget Committee of the House and the Senate.

Mr. FRANKS. Thank you. Mr. Stenholm.

Mr. STENHOLM. Thank you, Jim and Joe. Welcome to the committee.

And you used the example of with or without Social Security. I want to ask both of you a question. In your opinion, is there an intellectually honest, a moral reason, or a fiscal reason, for this com-

mittee to take Social Security out of the computation for purposes of balancing the U.S. budget? One or the other, all of the above, none of the above? In your opinion.

Mr. JAMES MILLER. Well, Charlie, I think budget directors have an institutional bias against taking anything out.

Mr. STENHOLM. I don't want to—excuse me. Let me interrupt you. I don't have much time, none of us have much time. I just want to ask you in your humble opinions, is there a—is there a moral reason, an intellectually honest reason, and/or a fiscal reason, for this committee or this Congress to take Social Security out of our budget area computations and thinking?

Mr. WRIGHT. Mr. Stenholm, I am not a politician and I am not going to be a politician so I will answer your question directly. No. I think that to take Social Security off the table when it represents as the largest number that you have in the entire budget, I don't think you can afford to take it out.

Now whether or not you take it on this year or whether or not you take it on 2 years from now, it is not going to make any difference. And the only thing I would suggest as a member of the private sector is that you seriously consider that you can privatize some of that Social Security system by requiring some of the payroll tax to go into an IRA or some version of that. That was actually recommended, 1½ percent from payroll tax into an IRA, by the study that I was talking about by Senators Kerrey and Danforth.

Mr. JAMES MILLER. Could I just amend my answer by saying I think there are intellectually honest arguments to take it off the table. But I think that the weight of the argument comes down on the side of keeping it in.

Mr. STENHOLM. OK. When you—when you show that with your charts that we can get to balance by taking the Social Security off, but freezing everything else, I assume you mean we are going to freeze Medicare and Medicaid. Can you—can you tell us how we could do that?

Mr. JAMES MILLER. No, what I said is you could allow the deltas for Social Security to go up—

Mr. STENHOLM. Now—

Mr. JAMES MILLER. No, I didn't want to freeze them. You have to make the decision within those totals what to do about Medicare. My budget freezes at simply a freeze on the top line or bottom line number, not the composition.

Mr. STENHOLM. OK. I mean many times we get this, all we got to do is let spending rise at this rate. It overlooks some very tough policy decisions that have to be made in order for that to be accomplished. And you acknowledge that?

Mr. JAMES MILLER. Yes, sir, readily.

Mr. STENHOLM. All right.

The only area that—and following Mr. Sabo's line of questioning a moment ago, the only area that really gives me a little bit of a problem, when we talk about the years that both of you served in the budget, the budgets you recommended to us, do you not acknowledge that spending you recommended to us, that the Congress spent less total dollars than you acknowledged?

Mr. JAMES MILLER. No, sir.

Mr. STENHOLM. You don't?

Mr. JAMES MILLER. No, sir.

Mr. STENHOLM. Then I got to go back and read your budgets again, because every time I add up the dollars that you recommended that the Congress spent, we ended up appropriating less dollars.

Mr. JAMES MILLER. Let's keep in mind, there are entitlement spending and interest on the debt, versus discretionary spending.

Mr. STENHOLM. In the discretionary side, do you acknowledge that—

Mr. JAMES MILLER. Yes.

Mr. STENHOLM. OK. The Congress actually spent less in those areas where we made conscientious decisions to differ with you.

Mr. JAMES MILLER. But you have responsibilities for entitlements, too, and we made recommendations there.

Mr. STENHOLM. Oh, I acknowledge that, and I acknowledge my failure in that area personally to not deal with the entitlement side. But I get a little bit frustrated because it is always the, quote, big spending liberal Democratic Congress that caused this problem in the areas of appropriations. And this is just a little bitty fine point that rankles me and I thank you for acknowledging it.

Mr. JAMES MILLER. Mr. Stenholm, I have never characterized you as a big spending liberal.

Mr. STENHOLM. Yes, you have. I am a Member of the Congress.

Mr. JAMES MILLER. Well, OK then.

Mr. FRANKS. We are going to take a recess for a few minutes while the members could go vote. I would like to ask the witnesses if they would be willing to certainly remain, because we will be back to continue to pose some questions. Thank you.

[Brief recess.].

Mr. SMITH OF MICHIGAN [presiding]. Mr. Miller, I think we will get started. Mr. Radanovich has 5 minutes.

Mr. RADANOVICH. Thank you very much, Mr. Chairman.

I am very refreshed by the testimony I have heard today. I am kind of curious, because I have only been here 30 days and, you know, it seems to me that the debates and the arguments and sometimes even the hearings have been very one dimensional, and pretty much standard and pretty much party line. And I think what frustrates me is that there is no identification of a process, an identification of what the problem is, what the fixed problem looks like, and some identification of a process on how to get to a solution. That is why, Mr. Miller, I was so refreshed to hear you say it. Not because I share those same thoughts, but at least somebody is talking about how we get to a solution to this problem.

I don't know if it is a question of the fact that power is too diffused in this town, but nobody is focused on what the real issue is. And I don't even think it is a balanced budget amendment—it is a consensus that Federal Government is too big and how do we go about downsizing it. My comment is, we should just focus on that, both sides of the aisle. And I would like to see it in this Budget Committee.

I mean, there is a true vacuum of ideas out there, or a lack of consensus on how we go about solving this problem. And too many times I think that we are nipping at the edges of the issue without

getting to the heart of it. And this—you know, what I would like to say, I just wish we could get down to business.

And that is defining what the problem is, government is too big, and defining a process whereby which we on this committee, Democrats and Republicans, can start identifying what government should be doing and what it should not be doing. And even going beyond that, by identifying what sector in this society should be taking up some of these problems.

I mean, what got us into this big deficit and big debt is that government has assumed too much responsibility. If we can resolve that and then start moving on to some debate to form some kind of a philosophical consensus about how to approach this problem, we would all be better off and we would be solving problems. And right now, and this is my 30-day perception of the way things are around here, responsibility has not been allocated to any one body to solve this problem. And I think that Budget, being in charge of macro issues, is better off engaging in some dialogue that is contained not with, you know, liberals versus conservatives, but focusing on a set parameter of ideas on identifying what the problem is and how do we begin downsizing government.

I mean, I can't comment more strongly on how we should be focusing on that rather than minimum wage or balanced budget or who is going to cut what first and who is going to have the guts enough to come out and say that this program needs to be cut over another one.

Care to comment? I am sharing the frustration here, because I am very impatient and only been here 30 days and have no right to be, but I am.

MR. WRIGHT. Mr. Radanovich, I understand your frustration. Let me give you a suggestion.

While the process is going very fast right now and you think you may not have time to be able to look at what the proper role of government is, I would suggest that if you spend too much time on process, that your opportunity is going to go by.

You are going into an election year next year, as I mentioned to you. And you have got a unique opportunity to make fundamental substantial change in the way the Federal Government is operated today, what its role is, and what its role is with the States and the local governments.

Now, Jim Miller came out with a pretty good list. And for the most part, many of the programs, like the ICC that the President recommended, should be terminated, but I would add many others that have been questioned by Republicans and Democrats, for years. There is no reason for them to exist, such as the Economic Development Administration. There is no reason for that agency to exist. Many of the subsidies, there is no reason for them. And the Budget Committee is the only place right now literally during the next few months where you can take on that issue and make the first substantial big changes. Then I think you should get into what is the proper role of the government. But if you spend too much time on process right now—

MR. RADANOVICH. Don't have enough time for it, is what you are saying.

MR. WRIGHT. Yes, sir.

Mr. RADANOVICH. Thank you.

Mr. SMITH OF MICHIGAN. The gentleman from Mississippi, Mr. Parker.

Mr. PARKER. Thank you, Mr. Chairman. I have enjoyed the conversation this morning. It hasn't done a lot of good. I appreciate the fact that all of you can vent your anger and your frustration and your feelings. But in a lot of ways, it is kind of like throwing oats in front of a dead mule. I mean it makes you feel better, but we haven't accomplished a whole lot from that standpoint.

And I will just go ahead and give it, everybody did a great job during the 1980's, everybody. I was running businesses back home and I just think that just the whole world looks a whole lot better because of what everybody did.

My personal feeling is, is that our economy is—must be a mighty powerful thing to have people in positions of power, both in the Congress and the White House, that could make so many terrible mistakes and it still continued to chug along. Now, what I have problems with, I think the real question comes down to how we are going to make the changes. My personal opinion is, it is kind of like cutting off a finger. Do you want to cut it off with a skill saw or do you want to cut it off with a butter knife? And a lot of people around have wanted to extend this process.

From a bipartisan standpoint, I think the President's budget is the most ridiculous thing I have ever seen. He accepts no responsibility, and he puts everybody in the situation of saying, I am not doing anything because I am ducking for cover and I want somebody else to make all the hard choices, so I can look over everything and see if I want to veto it or whatever. So I think that he has ducked his responsibility, and I don't like that. And I think the majority of people around here know we have a small window of opportunity to do something. It is just according to how we are going to do it.

One thing that I want to bring up, because the Citizens for a Sound Economy have come out for a long time about they want to get rid of REA. And I think that is—that is an issue which reflects upon how we are going to solve the budgetary problems we have. And I want to address that one specific issue. Because I am willing to take major cuts in order to get something done. But we have to be very careful how we pick an issue and play that game. I am not saying that REA shouldn't be privatized. But in order to privatize it, you must have an alternative whereby that those subsidies, which have been utilized for economic development in rural America, the REA was formed to provide those subsidies in some way.

Everybody says, well, in private sector, those energy-producing companies out there, they don't have subsidies like the REA does. Well, they don't, like the REA does, but they do have subsidies, you know. They have bond authority; they have a lot of ways that they can turn around and raise capital.

But also, we have to look at the effect that the changes we make are going to have on rural America, because we can open up a can of worms. I know the majority of people live in the 12 percent of the counties that are urban in this country. But REA, at least I can get them to hook up a \$6,000 house trailer without charging somebody \$15,000 to hook it up on a country road.

Now you could say, well, they shouldn't be out there. But that is where they make their living, a lot of those people. So some way, we have got to have some common sense involved in this thing so we can keep rural America alive.

We have a possibility of destroying rural America by just turning around and saying just privatize REA. I would like you to respond to the whole concept of what do you put in the place of REA? Because the reason it exists is because we couldn't get private industry to go in and do anything.

Mr. JAMES MILLER. Congressman, REA was established for the purpose of electrifying rural areas. It has accomplished that job; 99 percent of all rural areas have electricity. It accomplished that job many decades ago. Yet it continues on.

It is an organization. Its cooperatives have access to loans from the Federal Treasury at Treasury rates. If you had an opportunity to borrow money at Treasury rates, how much would you want to borrow? I can't speak for you, but I would want to borrow a lot. And so you do have REA's that have McDonald's franchises, for example. They are not doing what they are supposed to be doing. I disagree totally with your contention that you could destroy rural America by privatizing REA. I just don't think that is true at all.

Mr. PARKER. OK. And what—

Mr. JAMES MILLER. And what you could do with REA in privatizing it is make it a more efficient operation. And the difference in the amounts of payments per month would be pennies, given the elimination of the subsidy and incorporating in it the ability to draw at Treasury rates.

Mr. PARKER. I will accept your statement that what we are talking about, about destroying rural America, I will accept that statement, it won't destroy it. It would hurt us from the standpoint of economic development in certain areas.

I can take you to certain areas in my district which, if it were not for REA, I couldn't get a company like Mississippi Power and Light to run a line to a certain place at a cost that anybody could afford. I mean there would be no way. They won't do it. I mean they just refuse to do it. And I don't, from an economic standpoint, I don't blame them.

But there has to be something in place so REA can turn around and still provide those services to people. I am not saying that we should not change REA, but it should be changed from the standpoint that we do continue to serve rural America in such a way that we can have rural America grow. Because that growth has been very important. It is not something just that we just gloss over. There are not a lot of people, whenever you look in the total population of the United States. But it—those few people, that small percentage, they have a right to receive certain things also. And the private sector cannot put in—you know, we can't force the private sector to service those people below cost.

Are you telling me that REA needs to be privatized and we need to make no accommodation whatsoever for those rural areas that cannot be serviced by the private sector from a standpoint of, from an economic standpoint?

Mr. JAMES MILLER. The answer to your question, is yes. Yes.

Mr. PARKER. Well, you hurt my feelings.

Mr. JAMES MILLER. Oh, sir, I didn't mean to hurt your feelings.

Mr. PARKER. Tell me why would you say that. It is just not worth developing?

Mr. JAMES MILLER. Well, I think you underestimate the ability of a privatized REA to serve that area, their customers. Now, would you string 6 miles of wire down to a trailer? No. I don't think anybody should have a right to demand that REA or anybody else string 6 miles of wire down to a trailer and pay \$20 a month instead of covering the cost of stringing that wire down there. I don't think that is a reasonable demand.

Mr. PARKER. Oh, I think it is. Because that is how we—that is how we got things like dairy farms in those areas. I mean we have—we have businesses in those areas, where they string that wire down there. Because that is how we develop rural America. That is also why a lot of people in urban America are moving back to rural America, because they can get those services. And I think it is an important thing to talk about.

Mr. JAMES MILLER. The hypothesis was a single trailer and 6 miles of wire for a single trailer. Let me just make that clear.

I don't doubt that REA has been beneficial. I do not doubt that there are areas that are economically viable, but only because they get power provided to them at rates that are terribly below cost. I don't think that is appropriate. That is not the way markets work.

And I am not suggesting that I have any lack of love for people in rural areas. If you know about my background, I came from a rural area myself, where we did not have very much money. I remember when my grandmother and my granddaddy on my Mama's side got electricity. I can remember that. So it is not something that I cast off lightly. But I think that it is an appropriate reform for this government to implement.

Mr. SMITH OF MICHIGAN. The Chair will take the liberty of maybe intruding and asking a few questions, and then if we can come around to the second go-around.

Mr. Miller, I want to ask you about the Reagan administration, your administration. A lot of criticism that that administration was the starting point of overspending and driving us into the debt situation that we now see ourselves involved in, overwhelmed in. But if you look at the OMB tables, we find that the discretionary spending from 1981 to 1989 actually dropped by 9 percent.

Do you have any comments on the criticism that has been suggested that the Reagan years are the ones that started this, the overwhelming debt situation that we find ourselves in today?

Mr. JAMES MILLER. Historically, there are three reasons why we got a big jump in deficits, Joe was pointing out earlier on. No. 1, you had a very high rate of inflation and Congress appropriated money in nominal terms instead of real terms. And so the rates of inflation came down faster than we expected and so the nominal returns for tax returns were less than we expected. That is one reason.

No. 2, we had a big recession, which increases outlays for safety net programs and made a substantial shortfall in the revenues expected. Then we had, after 1982, a tremendous tussle between Congress, especially the House, which wanted to increase domestic

spending and cut defense spending, and a President who wanted to increase defense spending and cut domestic spending. And out of that tension an increase in the deficit.

Then along comes fiscal year 1987 and we had a substantial reduction in the deficit, \$71 billion reduction in the deficit. In fiscal 1987, for the first time in 20 years, spending, Federal spending adjusted for inflation, actually fell.

So it was an uneven history, but I do not think that you could characterize the decade of the 1980's as a time of profligate spending. The increase of the defense delta was far less than the increase in spending on domestic programs.

And back to the question of discretionary spending, as I recollect, I remember looking at the numbers, and the amount that Congress actually appropriated for discretionary spending was just a teeny bit less than the President asked for. But of course there was reallocation, including a big cut in the defense spending that he asked for, and a big increase in domestic spending.

But also, if you go back, I remember numerous instances of where Congress essentially took some discretionary domestic spending and transformed them into entitlements. And so they added that in with—

Mr. SMITH OF MICHIGAN. Mr. Wright, any comments?

Mr. WRIGHT. Yes, sir, Mr. Chairman. I would like to go back over just some numbers in the first 2 years of the Reagan administration, and then would like to reiterate my point on this budget.

In the first 2 years, the budget deficit went from approximately \$80 billion to about \$230 billion. And at that point, most of the proposals that President Reagan had made had not even taken place. If you remember, those were the days where we didn't do retroactive tax actions. We wouldn't have even thought about it. And so, therefore, we started at that rate of what was handed to us of about \$220 to \$230 billion deficits. And then we worked down from there.

Now, we did have a battle going all the time in terms of where the money should be spent, but I can recall very, very few times when I ever appeared before this committee or the committee on the other side or the appropriation committees, where, No. 1, anybody said we should reduce the cost of domestic spending either on entitlements or in the discretionary. We were always having to fight literally in the trenches, day by day, from the Office of Management and Budget.

Now, the main point that I have got with this President's budget is it doesn't reach, it takes no risks, it doesn't even propose getting down to balance, it doesn't even propose reducing the deficit. That is not leadership, Mr. Chairman.

Mr. SMITH OF MICHIGAN. Let me ask Mr. Miller one follow-up question. The analysis was given of cutting off your finger with a sharp knife or cutting it off with a butter knife. I prefer the analogy of that sticky tape that you peel off, do you peel it off slowly or do you yank it off.

You suggested that there is merit in some kind of a freeze or limiting the growth of all Federal programs. Does that mean that you prefer that over the big hammer tactics of Gramm-Rudman or, done in 1985, or the reductions in force that you initiated, or are

you still suggesting there is parts of Federal Government that we have no business being in, and freeze some of the other ones?

Mr. JAMES MILLER. When Congressman Parker raised that issue, I thought he was going to talk about a Congressman from Texas, I can't remember his name, who used to say the analogy would be cutting your finger off a little piece at a time. I don't want to do that. When I suggested the freeze, I did not mean to suggest a freeze in every program. I suggest a freeze in the total spending level. And so you could change within that total what the priorities should be.

Mr. SMITH OF MICHIGAN. Thank you very much. The gentlelady from North Carolina, Mrs. Myrick.

Mrs. MYRICK. Question that you may or may not be able to answer because it is fairly generic right now, but you talked about, you know, services the government shouldn't do, get them out, turn them over to the States and local, do all these things that we have been talking about doing. If you are going to look at eliminating a department, transferring functions within or whatever it may be along those lines, and you are talking about cutting off your finger a little at a time, is it not wise to go ahead and do it, instead of phasing? You know, I don't know, but my concern with phasing is for so many years they talked about phasing things, and then it never happens.

Is there any—I guess let me rephrase it, is there any reason you could not just do it immediately, from your standpoint?

Mr. JAMES MILLER. Mrs. Myrick, for purposes of reorganizing government, I think the quicker you do it, the better, rather than phasing it in.

Mrs. MYRICK. Thank you.

Mr. WRIGHT. Mrs. Myrick, on that one, you have to do it quickly. The closest thing to perpetual life is a Federal program, or a Federal agency. And if it has got some future obligations or whatever it is in terms of contracts you hand it off. There are plenty other agencies that are overlapping in most cases in the exact same areas. There will be no problem figuring out where it put it.

Mrs. MYRICK. Thank you.

Mr. JAMES MILLER. Could I just follow up, I see in the President's budgets a lot of claims of savings from reorganizing, consolidation, et cetera. I think there are potentials for savings. But I am always wary of big claims of big savings. I think what is important is the reporting relationship, and the ability to manage these programs would be made easier by this kind of reorganizing. But if you don't eliminate the programs, if you simply consolidate them, you don't change outlays a whole lot.

Mrs. MYRICK. Well, even in some elimination, yes, you are going to have some costs, but the point is then in following years you won't have it. So you are actually saving in the long term.

Mr. JAMES MILLER. Right. Don't take too seriously the arguments that some agencies will give you that if you close us down it is going to cost you up front. First, that is a ploy. And secondly, agencies tend to overestimate really how much is necessary for reorganization.

Mrs. MYRICK. Thank you.

Mr. SMITH OF MICHIGAN. The gentleman from Oklahoma, Mr. Largent.

Mr. LARGENT. Thank you, Mr. Chairman.

A couple things. I have 10 questions, and so I will try to make them questions that you could answer quickly. I am glad you all are here, because this really has become a referendum on the Reagan years. Because what we are hearing all the time now is, here we go again, the same old, you know, Reaganomics, trickle down, all that stuff, exploding deficits.

A couple of things that we heard yesterday in testimony by a person from the White House was that in the 1980's, the lower 80 percent of wage earners in this country, their standard of living fell. How would you respond to that? I mean is it true or not true?

Mr. JAMES MILLER. Untrue.

Mr. WRIGHT. Totally untrue.

Mr. LARGENT. OK. Reagan never even offered a balanced budget in the 1980's?

Mr. JAMES MILLER. Yes, true.

Mr. LARGENT. That is true, he didn't?

Mr. JAMES MILLER. Not for the next following year, but the budget would be balanced in so-called outyears, if the Congress responded to his recommendations.

Mr. LARGENT. In years 3, 4, and 5, whatever.

Mr. WRIGHT. Mr. Largent, I have a table here that shows exactly what was proposed every single year and the mid-session review. And what I would like to do is make this part of the record, if I may, because we have got to put that myth to bed.

Mr. SMITH OF MICHIGAN. Without objection. Hearing none, so ordered.

Mr. SABO. Just so it is accurate, would it also include the economic assumptions that were used for the outyears of growth and interest and these kind of assumptions?

Mr. WRIGHT. No, this table does not include that.

[The information referred to follows:]

BUDGET AND MID-SESSION DEFICIT ESTIMATES

[In billions of dollars]

Fiscal year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1982 Budget (Reagan) ¹	-74	-79	-62	-34	-9	-2	22														
1982 MSR (Reagan) ¹		-80	-61	-33	-8	-1	22														
1983 Budget (Reagan) ¹		-79	-118	-107	-97	-83	-77	-63													
1983 MSR (Reagan) ¹			-128	-130	-107	-85	-77	-68													
1984 Budget (Reagan) ¹			-128	-225	-203	-205	-157	-152	-126												
1984 MSR (Reagan) ¹				-226	-194	-181	-139	-128	-91												
1985 Budget (Reagan) ¹				-208	-208	-195	-186	-188	-160	-128											
1985 MSR (Reagan) ¹					-187	-180	-174	-180	-167	-144											
1986 Budget (Reagan)					-185	-222	-180	-165	-144	-107	-82										
1986 MSR (Reagan)						-211	-178	-139	-100	-64	-18										
1987 Budget (Reagan)						-212	-203	-144	-94	-68	-36	1									
1987 MSR (Reagan)							-230	-144	-97	-61	-23	7									
1988 Budget (Reagan)							-221	-173	-108	-93	-80	-21	12								
1988 MSR (Reagan)								-158	-123	-113	-80	-45	-21								
1989 Budget (Reagan)								-150	-147	-130	-104	-79	-51	-23							
1989 MSR (Reagan)								-152	-123	-102	-85	-85	-34								
1990 Budget (Bush)								-155	-164	-91	-61	-24	9	NA							
1990 MSR (Bush)									-148	-99	-65	-67	-30	-25							
1991 Budget (Bush)(adj) ²									-152	-124	-63	-25	20	64	111						
1991 MSR (Bush)									-220	-176	-134	-49	31	55							
1992 Budget (Bush)										-220	-318	-261	-202	-62	-3	20					
1992 MSR (Bush)										-282	-348	-246	-132	-74	-55						
1993 Budget (Bush)(cash) ³										-269	-400	-350	-212	-194	-181	-186					
1993 MSR (Bush)												-334	-341	-274	-218	-218	-237				
1994 Budget (Clinton)													-290	-322	-264	-247	-212	-214	-250		
1994 MSR (Clinton)(CEA) ⁴														-285	-259	-200	-179	-184	-181		
1995 Budget (Clinton)															-235	-165	-170	-186	-190	-181	
1995 MSR (Clinton)(w/o health care)															-220	-167	-179	-190	-192	-207	
1996 Budget (Clinton)															-203	-193	-197	-213	-196	-197	-194
Actuals ⁵															-255	-203	-197	-213	-196	-197	-194

¹ Includes FFR and other off-budget programs, which were not in the originally published estimates.² Adjusted to exclude the Social Security Integrity and Debt Reduction Fund.³ The 1993 Budget was submitted with some accounts on an accrual basis. These estimates use the cash basis.⁴ Estimates were presented using both CBO updated economics and CEA economics. These estimates use the CEA economics.⁵ Includes minor technical revisions to initially published actual deficits.

Note.—Includes on- and off-budget amounts.

Mr. SABO. Would you include that, if you have that available?

Mr. WRIGHT. Mr. Sabo, with all due respect, I am in the private sector. So I would strongly suggest that you ask the Office of Management and Budget to do that. But I think it is a good idea.

Mr. LARGENT. OK.

Mr. LARGENT. Let me continue here, reclaim my time.

Mr. SABO. Excuse me.

Mr. LARGENT. Yesterday we heard from Dr. Tyson that on the one hand she said that a balanced budget is not the goal of the President's budget. At another time in her testimony, she said it was the linchpin of the President's budget strategy. But basically she said what we have to weigh is the programs and the people that we are trying to help with the funding that we are using, with the idea of coming to a balanced budget. And the bottom line was, and this is my opinion, is that a balanced budget was not a priority. And my question would be, why should a balanced budget be the highest priority or a high priority?

Mr. JAMES MILLER. Because No. 1, an unbalanced budget strains the efforts of government. No. 2, it is a moral issue as well because it is offloading debt on a future generation because of what economists call fiscal illusions. It is also a problem of savings. I think the savings rate—that is, the amount of savings available to the private sector—would go up if you were to eliminate the deficit.

Mr. WRIGHT. I would just like to add to that very briefly. Whenever you run a deficit, it basically is the Federal Government saying that we can spend the money better than the private sector can spend the money. And I think if there is nothing else we have shown over the years beyond a shadow of a doubt, that is not true. And the second thing is the role of the Federal Government. Do you really believe that the role that the Federal Government is playing right now is proper? And I think most Members of Congress and the administration on both sides would say absolutely not. Then the next question is, well, then why are we funding it? There is no reason for a deficit.

Mr. LARGENT. OK. One of the other comments that you made, I think it was Jim. You said you would like to strengthen the Budget Committee's authority.

Let me just throw out some things. I am coming in totally as an outsider in this political arena, just some observations that I have, I just want to throw them out and get you to respond. There are about five or six here. One person suggested yesterday, it was Dr. Vedder, I don't know if you are familiar with him, suggested that we never do more than a 1-year budget, because we can tend to hide and lie and deceive by using a 5-year budget, so that you do only a 1-year budget at a time. What do you think about that?

Mr. JAMES MILLER. I disagree. I think you ought to take far more seriously next year than the following years, though.

Mr. LARGENT. OK. The Cox amendment, I don't know if you are familiar with that, would actually make the budget a one-page budget, which basically just gives the bottom line by category, and that it be passed into law prior to the appropriating and authorizing process.

Mr. JAMES MILLER. I agree with that. That proposal is in my book, and that is a position that Chris and I took when we were in the Reagan administration.

Mr. LARGENT. OK. Another thing that does not make any sense at all—we now have about 200 appropriations that we make, currently, that have no authorizing legislation. Either the authorizing legislation was not passed, or it wasn't even offered. What is your response to that type of—

Mr. JAMES MILLER. I think you have a chance to break this cycle and what I would suggest the Appropriations Committee do is simply say we are not going to appropriate if we don't have an authorization. Don't appropriate without authorization anymore.

Mr. LARGENT. OK. And that brings me to this—

Mr. JAMES MILLER. I mean, authorize on appropriations, I am sorry.

Chairman KASICH [presiding]. Would the gentleman yield? Wouldn't it be a lot simpler if we made the authorizers stand up to things that were being appropriated and hadn't been authorized?

Mr. JAMES MILLER. Well, yes, we should do both.

Chairman KASICH. I mean, I think if we were counting on one committee not wanting to have more authority, they are not going to stand up and say, oh, no, we don't want to do it. They will move quickly to fill in the void.

The experience over the years has been defense appropriations has moved to do a lot of things that defense authorization wasn't very happy with, and, frankly, the reason why they got away with it is because the authorizers tended to back off.

Mr. JAMES MILLER. Yes, but I think you ought to collapse the committees.

Mr. LARGENT. That was what I was going to say. That brings me to my more fundamental question, which really revealed the fact that I hadn't been here very long. And that is, what sense does it make to have an authorizing committee and an appropriating committee and a Budget Committee? It seems like there is a lot of redundancy there. I mean, just from a businessman's point of view. If I were to just have a blank slate and say this is how it should be done, I would have an authorizing committee that is the expert on their area, and then you would have a budget committee, and the budget committee would tell the authorizing committee this is how much you have to spend, we are not going to tell you how you have to do it, that is your expertise, and then let the authorizing committee determine that. What purpose does the appropriating committee serve?

Mr. JAMES MILLER. Well, basically the Budget Committee does that. It tells the appropriators how much money they have. That is what the 302(b) is all about.

I mean, I—I mean, why is it that you have made these functions separate? Part of it is historic, part of it is also that you have opportunities for more people to be chairman of subcommittees and committees, and all that. You ought to collapse them.

Mr. LARGENT. OK, my last question—

Mr. WRIGHT. By the way, Mr. Congressman, let me just add on that very briefly. Also, what it does, it diffuses responsibility.

Mr. JAMES MILLER. Yes, that is a good point.

Mr. WRIGHT. And that is something where, you know, I would recommend that the Budget Committee, when you come out with your guidance that you are going to come out with, also come out with the guidance not only in the budget, but on the appropriations, on the reconciliation, and the budget process to get it done.

Mr. LARGENT. OK. Finally, I am going to end up by asking what other suggestions you have to strengthen and to streamline this process. But, does it make sense to take Social Security off budget totally? In other words leave the revenues in a true trust fund to do advance funding for the Social Security wall we are going to hit in 20, 25 years.

Mr. JAMES MILLER. I wouldn't take it off budget, but you got to realize that what is in that black box called Social Security trust funds are IOU's on current generations. And when you open that trust fund in the year 2018, 2022, whatever the actuarial assumptions you make, that is all that will be there. And that will lead to an intergenerational conflict of a sort you haven't had since the Vietnam war. That is the reason you have got to address that issue right away.

Mr. LARGENT. That is why I am saying take it off budget and don't allow them to accumulate any more IOU's to the Federal Government.

Mr. JAMES MILLER. But a lot depends on what you do with the Social Security surplus. I proposed and Jeff Eisenach has proposed before to essentially invest the surplus in businesses. I would have some maximum that you could invest in corporations, in land, and other things. So that you don't have this enormous IOU on some current generation.

Mr. LARGENT. That is what I am talking about. Does it make sense to do that?

Mr. JAMES MILLER. It makes sense to do that. But I think that ought to be in the broader context of what you do with Social Security as an issue. I wouldn't start by taking it off budget or something like that. I would keep it on budget, but I think you need to recognize that Social Security has got to be addressed. There is an enormous disparity between what a lot of people expect from Social Security and what is really going to be available.

Mr. WRIGHT. Congressman, if you just take it off budget, what that is in some ways, is a public relations exercise.

Mr. JAMES MILLER. Yes, exactly.

Mr. WRIGHT. You have got a fundamental problem within Social Security that you are going to run out of money, period.

Now, I understand both parties have decided they are not going to take it up right now. You are not going to do that. You are going to have to take it up in a year or two. It is going to happen. It is not going to go away. And I don't think anybody disagrees with that. So you can leave it on budget, you can take it off budget, you can protect it in the future, but you have got a system that is rapidly on its way toward bankruptcy right now.

Mr. LARGENT. I may be using the wrong terminology to say "off-budget." What I mean is protect it, don't keep offsetting—making the deficit actually look smaller than it actually is because we are running at a surplus in Social Security. I say let's protect the surplus.

Mr. WRIGHT. Right, that is one step. But the other step is the program itself is heading toward insolvency. And whether or not you go and you do a good means test on it, whether or not you go in toward something that was mentioned in the Senators Kerrey and Danforth proposal of more privatization, something is going to have to be done.

Mr. LARGENT. Thank you.

Chairman KASICH. Well, Martin Sabo has got a couple more questions here.

Mr. SABO. I am just curious, this time it is not on history. I am curious what your experience is with reorganization.

It may surprise you, but I voted against creation of the Department of Education. I did not think it made sense to shuffle the boxes out of Labor. I lose track what we call it, I still call it HEW. I guess we took the "E" out. I didn't think it made any sense to create a separate cabinet post and I voted for some others over the years and with skepticism. But I have never figured out what sense it made to, once we have done it, to reshuffle the boxes by undoing it. I am not sure that there is—you know, that sort of the six grand agencies or something serves any great purpose either.

I just am skeptical of all the shuffling we go through in the name of reorganization. There is a scale where you can have efficiency, but I think sometimes you lose that efficiency by getting too large, too.

Would you agree or disagree with that general view?

Mr. WRIGHT. Mr. Sabo, first of all, I totally agree with you. For the most part, in Washington when you shuffle boxes around, it is the executive branch or sometimes the Congress' way of pretending to the public that something is being done. The amount of savings for the most part that are administrative savings in these departments is minuscule. That is not the point.

The point is are the programs that they are participating in outmoded? If they are outmoded, close them down. And then don't keep the administrative structure in place to keep lobbying up to the Congress, Budget, and Appropriation Committees for more funding. In closing many of these agencies down that should no longer exist, that is where the savings are. It is not just shuffling boxes around.

And one of the things that upsets me about the proposals that I have seen so far, is I don't see any real savings occurring. I just see a movement of the boxes.

And you are absolutely right, from the standpoint of creation of the Departments of Energy and Education, that just created more lobbying groups for more funds in the Congress.

I will say right now, when the Veterans Administration was made a cabinet department, Jim, I believe you were gone then, OMB was the only one that went in and fought it.

Mr. JAMES MILLER. I was there.

Mr. WRIGHT. Were you there? And, you know, there was no reason to do that. But that is not the main issue. The main issue is to go back to the role of government and right now close down those agencies, those programs, that do not need to exist. And don't waste time with all this fiddling around that is going on.

Mr. SABO. The key is the relative argument over the merits of a program, not over the bottom——

Mr. WRIGHT. Yes, sir, absolutely.

Mr. JAMES MILLER. All else being equal, when you elevate an agency to cabinet status, it tends to get more money. If you break something out and make it independent, it tends to get more money. And I think they tend to waste money.

Mr. SABO. I don't know, I always told my friends in Education, once they got cabinet status, then you folks came along and didn't know that they liked the results. They would have assumed something else happened.

Chairman KASICH. You know, but the thing is, appreciate the gentleman yielding, when we lower the caps, that is going to force something well beyond just shuffling around.

You know, my personal view is there ought to be a minimum of three departments, probably four. I mean, if you look at Education and many of their roles, I think their programs that can either be consolidated, some eliminated. Energy, Commerce, I think as most people know, has always been kind of the attic for political junkies that couldn't get a job anywhere else.

Mr. JAMES MILLER. And look at the spending for the Commerce Department under this budget. I mean, it has just grown like crazy.

Chairman KASICH. You have some legitimate functions in Commerce, but, you know, go back to the ICC. And that is a good thumbnail case of what we did. There are some legitimate functions remaining at the ICC that have to be performed, but the way in which we saved the money is we figured out which functions really did not make sense, consolidated the remaining ones in Transportation, and then put them under the total employment cap of DOT, so that when they went to hire people, they were forced to really want those employees.

Mr. WRIGHT. Well, Mr. Chairman, remember the Ash Commission report in the early 1970's? It might not be a bad idea to go back to take a look at that.

Chairman KASICH. Which was that?

Mr. WRIGHT. The Ash Commission report. It was done in the middle of Richard Nixon's first term. And it recommended basically four major cabinet departments. And it is not too much different than some of the comments that I have heard you make before. It was a wide-ranging study. At that time I happened to be over at the Department of Agriculture, and we started implementation of a Department of Natural Resources with a combination of many of the things that you are talking about, and have talked about in the past. That would be substantial——

Chairman KASICH. We will look for that. Just take Energy, for example. We all know that—we got, what, how many labs are there, 900 labs or something? But we know that the big bulk of the savings occur in about a dozen, 15 labs.

When we lower the caps, it is going to have to drive the closing of labs or the privatizing of labs. And, frankly, these labs are—they bear little relationship in many cases to what their original functions were. And they are just out there fighting like crazy now just to keep their doors open. And if we didn't lower caps and discre-

tionary, I think we would have more shuffling than we would have real downsizing.

Mr. WRIGHT. I agree with that, Mr. Chairman. By lowering caps is one way to do it. It will make it work. If you don't have any money you can't survive. But also, you can become horribly inefficient if you have got more numbers of agencies that are surviving with fewer dollars. What I am saying is you go ahead and make the decision they no longer fulfill a proper Federal role and close them down.

Mr. SABO. Second question. In terms of management of Federal Government, does OMB overmicromanage?

Mr. WRIGHT. By the way, I would like to answer that. With approximately 500 people handling \$1.6 trillion, Mr. Sabo, you can't micromanage. You may try to, but you just physically can't.

Mr. SABO. Well, but the problem with that may be in the worst of all worlds to have a few people thinking they are supposed to.

Mr. WRIGHT. No, but understand what that agency does in total. It prepares the budget, tracks all of the legislation, handles the entire appropriations and the apportionment process once the appropriation is signed by the President, handles all of the regulatory approvals from all of the agencies, handles all of the management reviews, approves all of the large scale computer purchases and telecommunication purpose purchases.

I was there and was trying, as Jim knows, and Jim was a big part of this, trying to get into improving the management of the government. Chairman Kasich and myself worked on the credit reform, and he can pretty well tell you, that was a huge priority in those days. We were going after cash management and credit management because we couldn't do things like privatization since the Congress would put in prohibitions on our agencies against what we could even look at. So I think, Mr. Chairman, when you and I were working on credit reform, that without your help, I don't think we would have gotten anywhere near the progress that we made just collecting debts, by the way.

So from a micromanagement standpoint, I would say absolutely not. I would say right now OMB has probably been defused somewhat with the Reinventing Government exercise because part of it has been moved over to the Vice President's office. In some ways, I like the higher priority of improving management in the government to be at OMB, but no, I don't—

Chairman KASICH. You think you could do it with 27 people like we are?

Mr. WRIGHT. OMB? Not if you ask them to track all the legislation and report to the White House every morning.

Chairman KASICH. That is what we are doing up here. We have got 27 people; we are looking at all that waivers. It is an enormous job.

Mr. LARGENT. Would the gentleman yield?

Chairman KASICH. Yes. It is not my time.

Mr. SABO. Yes, I will yield.

Mr. LARGENT. Thanks.

I want to differ a little bit with the previous question about eliminating departments. There is a theory which I disagree with from a spiritual aspect, but not from a sociological aspect, in

churches, that say you will always fill up 80 percent of the space that you have in a church. So if you want to grow your church, build a building because you will get more people and you will fill it up, at least 80 percent. And I think the reverse of that could be true as well, that if we can eliminate part of the space that currently is being occupied, that we can also reduce the number of people as well, which is the greatest cost to the Federal Government. Because in my opinion, when you add a department and you add more space and add more people, now you have got more people that have to develop more programs to justify their existence, and so I think there is some merit in moving some boxes. Because when you put a lot of boxes in the same room, just from a pragmatic point of view, people are going to start saying, you know, we need to get rid of some of these people, there are too many people in this office.

Mr. WRIGHT. By the way, Congressman, I totally agree with you. But it is eliminating boxes, not moving them around. That is the difference.

Mr. JAMES MILLER. And my response is don't think that by just moving boxes around you have cut the size and scope of government. You have got to eliminate programs that don't make sense.

Joe was right about Social Security, if you put it off budget it is largely PR. And while if you eliminated and consolidated departments and you didn't do anything about programs, it would still be, largely PR. But if you did some reorganization, you could send a very powerful message to government, and a very powerful message to the people, to the taxpayers, that you are serious, and you are going to be looking at programs, and you are going to be paring programs back.

I think one thing that you can do and really ought to consider seriously is establishing productivity standards. In the private sector, if you don't increase productivity, you die. In government, if you don't increase productivity, you get more money, because you obviously don't have enough money to do the job. And so that is one of the things that we did.

As you remember, Joe, we wrote an Executive order whereby President Reagan established productivity goals for all the agencies. I think Congress ought to hold agencies' feet to the fire and say, if the private sector can increase productivity, so can you.

I notice that civilian employment under the President's budget is down somewhat, and that is good. But it is not down at the same rate that I think would be called for in the private sector.

Chairman KASICH. Let me just ask one final question and let you gentlemen leave. I am a big believer, and this is the crudest way to put it, bounty hunters. I really believe that if you gave bureaucrats a piece of real savings—you just take, for example, Ernie Fitzgerald during the C5 problem or any of these things that come out. I had a—one of our colleagues walking over here said that there was a bunch of folks, bureaucrats, I don't mean that negatively, that is what they are, the bureaucrats were out in her city and they could have flown back but they didn't, they stayed over night, then they got paid for today and they didn't have to go to work because they flew in today. I don't know what the details are,

whatever. But let's assume somebody came up with a way to really save a million dollars in travel. I mean, why not give them——

Mr. JAMES MILLER. Yes.

Chairman KASICH [continuing]. \$10,000? Don't you think that would—we give them plaques. I had Republicans fighting me over in the Senate on this. I passed this bill through the House a number of times, to actually boost rewards and give them real money for doing a good job. And it was the Republicans that killed it over in the Senate, with the help of a couple Democrats. But their thinking was, well, when a public employee takes the oath of being a civil servant, that is good enough. And I said, it is not good enough. IBM is the biggest giver of bonuses I think in the private sector.

Jim, does this make sense, and Joe, does it make sense to do this?

Mr. JAMES MILLER. Absolutely.

Chairman KASICH. And how would you structure something like this?

Mr. JAMES MILLER. It makes absolute sense. What you don't want to do is to have the agency heads give the money to their best buddies. You need to have some evidence that there are real savings there.

But you know what that would do, if you did it? It would focus people's attention in the government on the need to save. One reason that you get this kind of behavior from people is that they realize, who cares? Congress spends money, it doesn't care. Nobody seems to care. But if you had some rewards and had focus on productivity improvements, had focus on saving money, rewarded people for finding out ways of doing that, it would matter, just as it works.

I am on boards of directors of several companies. We have incentive programs of that sort. People come up with ideas to save money. You give them a piece of the action. It would change the culture and the behavior. People that work for the Federal Government on the most part, fine people, but it is the behavior—the culture tends to reflect the fact that nobody cares. And something like that would be one way of getting the message out there that people do care.

Chairman KASICH. Let me ask you one final—yes, Joe.

Mr. WRIGHT. Mr. Chairman, can I just add to that? First of all, I totally agree with Jim. I think that is an outstanding idea. What I would do is I would establish a very simple, the word is "simple," program, that is somehow a joint program between the Congress and the President, where the ideas would come up to the Budget Committees, as well as the President. Do it through some other source, it doesn't make any difference what it is. You award the dollars. You have got a buddy system going in almost all the departments, you really do. They have got their own executive service, they have got their awards, but they are small awards. They are not going to get you to really have fire in your belly and drive toward something that is going to be unpopular, where you go home at night and your wife or your husband is going to say what are you working so hard on that for. But you have got to do it where it is totally separate and in place. And is it worth it for you

to pay somebody a hundred—not \$10,000, \$100,000 if they are going to save you \$10 million? Absolutely.

Chairman KASICH. One final question. Is there any way to get the Pentagon to work right without starving them of money?

Mr. JAMES MILLER. Well, Mr. Chairman, I think you and I have a little bit different opinion on the efficacy of the Pentagon. I think there are some opportunities there for improvements, and I think you have to work with them. I don't think you have to starve them to get improvement.

Mr. WRIGHT. Mr. Chairman, I would disagree just a little bit on that. I believe that you really have to seriously take a look at their whole force structure plans.

I believe what they are doing for the most part is they are running more of a high-tech World War II, and should not basically be what they are doing right now. I don't know how you would get into it. It would be a long, painful process, but I think, No. 1, we cannot afford to reduce our readiness and preparedness, No. 1. So if you have got no other choice, I guess you have got caps, but they certainly should totally relook at the way they are conducting their military operations for the future.

Chairman KASICH. My problem with it is that when you have the services come in privately, and you get everybody out of the room and you sit with these folks and you talk about weapons systems, you bring things up, and I would just feel so much more comfortable if I didn't hear a whole list of weapons systems bandied about that the services feel are in the budgets for political reasons.

We are going to go through this debate on this submarine. I don't know anybody that thinks we ought to keep the *Seawolf*. I don't know anybody. You know what, though? At the end of the day, it probably will survive. That is right.

And when we are talking, when you get people in from the joint side of things and they start talking about what they call the rice bowls of the individual services, it is natural, we have it up here between committees, it is called turf.

And I had one high, very high ranking military official come and say that they began to see the culture changing in the building, and then when Clinton, the President, gave them \$25 billion more, whether it was right or wrong, this very high-ranking military officer said to me it was like, OK, let's go back to business as usual. And it is a frustration for me, because I think that you can have a defense second to none, you have got to have technological capability out there second to none, but it frustrates me in that building that where people are concerned about spending money, that we somehow cannot adopt a more businesslike approach.

Mr. JAMES MILLER. Well, let me suggest two things that are businesslike. One, you ought to do multiyear budgeting for defense.

Chairman KASICH. I agree with that.

Mr. JAMES MILLER. Secondly, we ought to reform the procurement process to have less sole source bidding and have more competitive bidding.

Thirdly, and it gets to your point about the politics, defense is too important to put money in defense budgets for political purposes. You and I both know that there are Members of Congress

that have made careers out of using the defense budget as fodder for reelection campaigns. That has got to end.

Chairman KASICH. And my frustration is I don't know how that ends. I mean, I have one very well-known Member who came to see me yesterday, who has loaded this defense bill up for—I have been here 12 years. There are more armories named after this guy. He just—he happens to believe in this one area. And it becomes—I mean he is over begging me to stop any rescissions that are going to—that will rescind any of his programs, even though—I mean there are very few people on these committees that believe that the amount of resources he has put into this particular area really make sense. And that is why I said to you at the beginning, do we have to starve them before we get the real reform. That is why I am frustrated. We have to go away for procurement, we have to do all these things, but at the end of the day we keep doing the same thing.

Mr. JAMES MILLER. Let me suggest term limits. I wouldn't be so bold as to say retroactively, but let me suggest term limits.

Mr. SABO. May I ask a question?

Mr. WRIGHT. Mr. Chairman, the only thing I would say on that is, we haven't really done a good job of dividing out what I consider the military spending versus much of what you are talking about is not military spending. In my view point, it is domestic spending under the guise of defense. And from that standpoint, that really hasn't been done very well. And I think most of the cuts right now may be coming not only in personnel, but spending on the military side, and you have got this very large domestic budget, which fits in the category that you are talking about, and that is the area that should be cut.

Chairman KASICH. Well, and the other problem I get worried about in defense is that the weapons systems have the special interest groups out there sticking up for them, and then the soldiers in the field don't have anybody there because readiness is this nebulous business that doesn't have the lobbyists lined up for it. And it gets to be—that is how you get a haul of force, you get all these weapons and not well-trained people.

Mr. JAMES MILLER. Let me suggest that you get the Air Force people in and close the doors and ask them, now you tell me what the Army and the Navy—

Chairman KASICH. They told me. Jim, they have told me. And we all know the weapons systems we are talking about, we know what they are all about. But you can't get them to say it—well, you know the problems. We just got to get them fixed, though.

Mr. SABO. I think the problems are greater with marginal, quote, defense systems, than there is with, quote, domestic funding in DOD.

But, Jim, I am curious, you were suggesting we need more competitive bidding. I think we may be heading for really the other problem. And that is, and traditionally I would have thought that, but as we have cut purchasing, we increasingly are running into I think the reality that dual sourcing at times simply doesn't make sense anywhere any more. And we are headed, really the most efficient method of buying, is by a single source, and we need to sort

out a system on how you deal with sole source because just simply the volume says you can't go dual source any more.

Mr. JAMES MILLER. There are times when single sourcing is appropriate. I don't deny that, and when you have downsizing of procurement, that is probably the case.

Let me say also, though, we ought to do a lot of simplifying of the procurement process, hold people responsible. I remember when Bob Bidell, who was Director of Office of Procurement Policy, made a presentation to then-Vice President Bush, just describing the Federal regulations for the military to purchase chocolate chip cookies. It was incredible. You ought to just give the people some money to go buy some chocolate chip cookies.

Chairman KASICH. Well, Martin says we have not—we have not fixed that problem yet. The problem with the multisource competition, honest to goodness, they now have taken it to the point where they have got to search for extra companies. One or two isn't enough; they have got to go out and search for more. It holds everything up.

You know what we ought to do with procurement, in my opinion? And I loaded up the procurement bills with micromanagement in some areas. I mean, I was a believer in it. I don't believe in it any more. I think what we ought do is find out who we want to give something to, we ought to give it to them, and we ought to use a death penalty. You don't produce it the way you say you are going to do it, then you don't get any more contracts. These darn weapons—the C-17, the C-17, 20 years to bring, and it is still not working right, 20 years.

Mr. JAMES MILLER. Right. Is this a constitutional amendment you have in mind?

Chairman KASICH. Listen, this was very, very helpful and very, very productive. I hope you enjoyed being here today.

Mr. JAMES MILLER. I did.

Chairman KASICH. And I want to—the reason why members are in and out, we are trying to do this 100-day business, and everybody is everywhere. But the committee now stands adjourned and thank you very much.

[Whereupon, at 12:11 p.m., the committee was adjourned.]

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